Austria ... Sch. 20	Indonesia .. Rp 3100	Philippines . Pes. 20
Bahrain .. Din.0.650	Israel .... NS 3.50	Portugal .. Esc 100
Belgium ... BFr.45	Italy ...... L 1600	S. Arabia .. Rls 6.00
Canada ... C$1.00	Japan Y650	Singapore . S$ 4.10
Cyprus ... C£0.75	Jordan ... Fils.500	Spain .... Pta 125
Denmark .. Dkr.8.00	Kuwait ... Fils.500	Sri Lanka ... Rup 30
Egypt .... E£1.00	Lebanon . £L 25.00	Sweden .. Skr 7.00
Finland .. Fmk 6.50	Luxembourg . LFr.45	Switzerland SFr 2.20
France .. FFr. 6.50	Malaysia .. Rlo 4.25	Taiwan ... NT $95
Germany . DM 2.20	Mexico .. Pes. 300	Tunisia .. Din 1.375
Greece ..... Dr 80	Morocco .. Dh 6.00	Turkey .... L 350
Hong Kong . HK$ 12	Netherlands . Fl 2.75	U.A.E. ... Dh 6.50
India .... Rup. 15	Norway .. Nkr. 7.00	U.S.A. $1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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Friday October 3 1986

D 8523 B

Gorbachev hints at purge of moderates, Page 28

World news

Gandhi escapes murder attempt

Indian Prime Minister Rajiv Gandhi escaped an apparent assassination attempt in New Delhi by a young Indian man who had outwitted a strong security cordon but who was later arrested.

An urgent inquiry into the security lapse was launched. Protection for Mr Gandhi had been thought to be very tight since he came to power after the murder of his mother two years ago.

The incident occurred during a memorial ceremony to celebrate the birth of Mahatma Gandhi. The assailant fired and missed three times, with shots from a home-made revolver. Page 4

Solidarity warned

An official Polish newspaper warned the outlawed trade union Solidarity that its newly created council of former underground leaders was "political blindness" and heading for conflict with the law.

Iran rations petrol

Iran, the second biggest oil producer in Opec, is to ration petrol from today to safeguard its strategic reserves. Tehran radio quoted Oil Minister Gholamreza Aqazadeh as saying the measure was temporary.

Libyan airline ban

Britain has banned flights by Libyan Arab Airlines from the end of the month because a Libyan employee was recently implicated in a bomb plot. The airline operates two flights weekly between Tripoli and Heathrow. Page 12

Manila rebel charged

The Philippines brought charges of rebellion, which carry the death penalty, against communist leader Rodolfo Salas, who was seized in Manila on Monday. Release demanded, Page 4

French leave Togo

French troops and aircraft rushed to Togo after a coup attempt against President Gnassingbe Eyadema are to be withdrawn, a French spokesman said. The country was reported calm.

Bonn minister faints

West German Foreign Minister Hans-Dietrich Genscher, 59, fainted in parliament after delivering a 20-minute speech on disarmament and was taken to hospital for observation. Benn call on missiles, Page 28

Pakistan accused

Sixty children were killed in a missile attack by Pakistan on an Afghan border district two weeks ago, the official Kabul radio reported. It added that a soldier and an adult civilian also died.

Airlift postponed

The postponed relief airlift from Khartoum to feed the hungry of south Sudan was put off indefinitely because of what organisers called technical problems. Rebels in the region have threatened to shoot down the aircraft.

Kasparov favoured

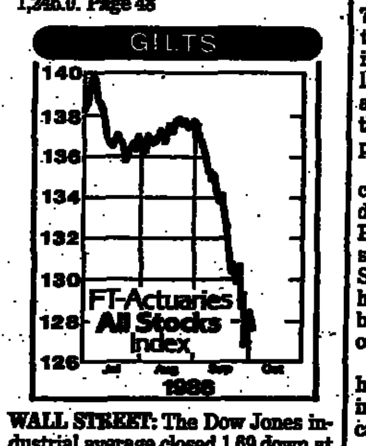
World chess champion Garry Kasparov improved his chances of keeping the title when he held challenger Anatoly Karpov to a draw in game 21 of the Leningrad series. The two are level at 10½ points each but the champion has the advantage of playing white in two of the three games remaining.

Business summary

New chief for US oil service group

SCHLUMBERGER, US oilfield services and electronics group, has announced the election of Mr Evan Baird to the posts of chairman, president and chief executive officer. The move was seen as a surprise and a replacement for Mr Michel Vaillaud. Page 28

LONDON financial markets turned nervous again amid continued uncertainty over the outlook for sterling. Share prices fluctuated and the FT-SE 100 index lost 5.2 points to end at 1,573.1 while the FT Ordinary share index closed 5.7 lower at 1,246.0. Page 48



WALL STREET: The Dow Jones industrial average closed 1.69 down at 1,781.21. Page 48

TOKYO: Mounting concern about the uncertain market outlook took equities sharply lower. The Nikkei market average tumbled 545.26 to 17,019.13. Page 48

STERLING closed in New York at $1.4360. It reached its lowest level despite intervention by the Bank of England and the West German Bundesbank. The Bank of England's trade-weighted index fell to a record low of 68.1, down from 68.7 at the opening and 68.9 on Wednesday. Against the D-Mark it fell to a low of DM 2.8750 (DM 2.92), Y220.50 (Y222.75), SFr 2.33 (SFr 2.37) and FFr 9.4225 (FFr 9.5650). Page 40

DOLLAR closed in New York at DM 2.0055; SFr 1.6265; FFr 6.5695 and Y153.82. It closed at DM 2.0060 (DM 2.0215), Y153.85 (Y154.15), and SFr 1.6260 (SFr 1.6410), FFR 6.5725 (FFr 6.62). Page 40

GOLD rose $9¾ an ounce from Wednesday's close in the London bullion market to finish at $433.12. Page 40

PLM, Swedish packaging group, reported 10.4 per cent drop in earnings for the first eight months of 1986 and repeated its forecast for lower earnings for the year. Page 32

PECHINEY, French nationalised aluminium and special metals group, reported a sharp fall in first half consolidated net earnings to FFr 104m ($15.7m) against FFr 451m for the first six months of last year. Page 29

HUMANA, one of the largest US hospital and health care companies, reported pre-tax charges of around $232m, to reflect losses on several long-term health insurance contracts and the disposal of unprofitable facilities and hospitals in the US and Mexico. Page 29

RIO TINTO Minera, partly owned UK mining company, bowed to pressure from the Socialist-controlled regional government of Andalucia and said it would restart loss-making copper production in south-west Spain. Page 32

BOND Corporation of Australia, agreed to buy the bulk of Hongkong Land's residential property portfolio for HK$1.425bn (US$182.6m) through an affiliate move that it said "will be the nucleus of a major international thrust by the group." Page 30

Reagan defeated in vote on South African sanctions

BY STEWART FLEMING IN WASHINGTON AND ANTHONY ROBINSON IN JOHANNESBURG

PRESIDENT RONALD REAGAN yesterday suffered his first major defeat on foreign relations when the Senate voted to impose tough new economic measures against South Africa.

These will include a ban on new corporate investments, coal and textile imports and the termination of US landing rights for South African Airways.

The vote carried by a majority of 78 to 21 in the Republican-controlled Senate follows a similar vote in the House of Representatives last Monday. The Congress needed a two-thirds majority to override the veto, meaning that it was passed by a margin of 13 votes.

However, the vote leaves US policy towards the Pretoria regime in disarray. Congress has rejected President Reagan's policy of "constructive engagement" towards South Africa, a policy its supporters have argued was aimed at trying to bring about the peaceful abolition of apartheid.

But apart from signalling its abhorrance of apartheid and identifying the US strongly with South Africa's black majority, the vote has not replaced Administration policy with an alternative approach.

The Administration's prospects of success appeared to have been harmed rather than helped by telephone calls by Mr Pik Botha, the South African Foreign Minister, to some senators on Wednesday urging them to vote to defeat the sanctions bill. Mr Botha threatened that if the sanctions legislation was approved, South Africa would cut its US grain purchases. If the legislation was defeated, however, he promised to buy more American grain.

Even Administration officials were hinting that Mr Botha's intervention had done more harm than good. Mr James Baker, the US Treasury Secretary, interviewed on US television yesterday, said: "There could be some backlash, I suppose, against the idea that a foreign government official directly lobbied US legislators."

Senator Richard Lugar, the Republican chairman of the Foreign Relations Committee, who has led the support for the sanctions bill, described Pretoria's intervention as "despicable." Sen Edward Kennedy, a leading liberal Democrat, deftly turned the South African move against Pretoria by saying: "We should not let the bullies and the thugs of Pretoria intimidate the United States."

It is far from certain that the Administration will see the congressional action as a decision which exerts irresistable pressure for a significant change in its approach.

Although public opinion is strongly opposed to apartheid the issue has not aroused such intense political passions that the White House will necessarily feel compelled to toughen its stance.

Much will depend on how the Pretoria Government reacts to the US action and the decisions by other nations including the Common Market nations and Japan to toughen sanctions.

In domestic political terms, the votes in both the House and the Senate provide Republican congressmen who opposed the White House's refusal to take tougher action against South Africa with political cover at next months' mid-term elections.

Many Republicans including Sen Lugar, who led the fight against his own party's president did so out of a conviction that the US, by not standing firmly enough against apartheid, was exposing itself to the charge that it was indirectly supporting racial oppression.

Continued on Page 28
Miners return to work, Page 4;
Commodities, Page 40

Mitterrand refuses to sign boundary decree

BY DAVID HOUSEGO IN PARIS

PRESIDENT François Mitterrand yesterday said he would refuse to sign the decree redefining French parliamentary constituency boundaries presented to him by Mr Jacques Chirac's right-wing Government.

It is only the second time that the Socialist President has refused to sign a decree since the March election. But Mr Chirac immediately sought to defuse a constitutional crisis by announcing that he would transform the decree into legislation and have it adopted by parliament.

The National Assembly met yesterday for the first day of the autumn session.

The President's view, as conveyed by officials at the Elysée, is that nine of the 11 changes in electoral boundaries carried out since the Second World War have been put through parliament and that this one should be no exception. But behind that lies the President's wish not to be seen approving a text which could damage the Socialist party's chances in the next parliamentary election.

The redrawing of constituency boundaries accompanies the new electoral law which provides for a shift back to single-seat majority voting from the proportional system brought in in March. Under the single-seat system, the right would have a clear majority in the National Assembly.

Socialist leaders have been urging Mr Mitterrand not to sign the decree because in a number of constituencies the new boundary lines are unfavourable to them. Thus Mr Mitterrand's refusal had been widely expected.

At the same time, neither President Mitterrand nor Mr Chirac currently have an interest in turning the issue into a conflict which could precipitate an election. The electorate would fail to understand such a move at a time when both the Government and the Socialists have been supporting a platform of national unity in the face of terrorism.

President Mitterrand also could not risk an election at a time when both recent by-election results and public opinion polls show that the balance of electoral forces in the country is in favour of the right. Mr Chirac, for his part, is reinforcing his powers at the expense of Mr Mitterrand and has no need of an immediate election.

The only other decree that Mr Mitterrand has refused to sign was the one over privatisation. Decrees are normally used to accelerate legislation as they enable a government to by-pass parliamentary debate.

UK and Dutch clash on plans to liberalise air travel in EEC

BY QUENTIN PEEL IN BRUSSELS

BRITISH PLANS to promote a cautious compromise in the campaign to liberalise EEC air fares and routes have aroused fierce criticism in Brussels and The Hague.

The new British proposals, set out by Mr John Moore, the British Transport Minister, in a letter to other ministers, are understood to favour only a gradual move away from current 50:50 capacity sharing arrangements between airlines, in sharp contrast to earlier, more radical, Commission proposals.

The plan is due to be discussed for the first time today by the 12 EEC transport ministers at an informal meeting in London.

Mrs Nelie Smit-Kroes, the Dutch Transport Minister who tried and failed to win acceptance of more radical measures earlier this year, has accused Mr Moore of "adding too much water to the wine, and too fast" while competition officials in the European Commission are also concerned at the dilution of plans for liberalising air transport contained in the letter from Mr Moore.

They charge that the British Government has backed away from its former support for a significant degree of liberalisation both on routes and air fares. They believe one reason is to ensure the successful privatisation of British Airways in a relatively protected environment.

However, there is a growing feeling, particularly among transport officials in the Commission, that a modest compromise along the lines proposed by the UK may be possible.

Mr Moore is believed to propose relaxing capacity sharing agreements between airlines to 55:45 for two years and then to 60:40 in the third year. This compares with a Commission proposal to relax capacity sharing to reach a 75:25 per cent split after three years.

The British plan also appears to postpone any effort to liberalise inter-regional air transport until next year, rather than include it as part of the package.

Instead, it calls simply for "multiple designation" on major routes to hub airports, designed to allow some third airlines on to routes previously restricted to national carriers.

The package also concentrates the effort to liberalise air fares simply on off-peak fares, rather than on economy and discount fares, where the liberalisation plans of the Commission sought to limit the restrictive purchase conditions which airlines currently impose.

The competition services of the Commission are pressing ahead with their own negotiations with the major airlines, which have all been served notice that some of their price-fixing and route-sharing agreements fall foul of EEC competition law. Officials say that action will not necessarily stop if the transport ministers reach agreement

Weaker pound puts UK rates under pressure

BY GEORGE GRAHAM IN LONDON

THE POUND weakened sharply again yesterday after two days of respite, putting renewed pressure on UK interest rates.

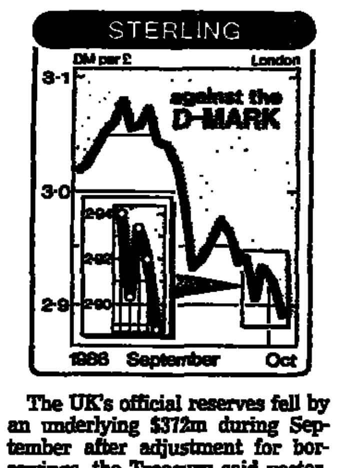
Both the Bank of England and the West German Bundesbank bought sterling in the morning in a bid to prop up the British currency in the foreign exchange markets. Dealers said the support operation faded away, however, and the pound was allowed to slide once it had broken through the DM 2.90 barrier.

It ended at DM 2.875, down 4½ pfg on the day at its lowest ever level against the D-Mark. The Bank of England's trade weighted sterling index also closed at a record low, down 0.8 at 68.1.

Sterling lost more than 1 cent in London to $1.4335 against the dollar, which itself weakened yesterday, closing at DM 2.006, down more than 1½ pfg. The pound closed in New York at $1.4360.

Although the Bundesbank and the Bank of England had intervened fairly heavily on Tuesday, the pound recovered little more than 4 pfg from its low point on Monday of DM 2.8975. This was not enough to convince dealers that sterling was no longer the obvious currency to sell.

The Bank's tactics came in for criticism from some dealers, who felt that its intervention had not been muscular enough to have any real effect on the markets.



The UK's official reserves fell by an underlying $372m during September after adjustment for borrowings, the Treasury said yesterday.

They pointed out, however, that the heaviest intervention had taken place this week, but this would not show up yet in the reserves.

Replenished by the $4bn floating-rate note issued by the Treasury at the beginning of September, the actual level of the official reserves of gold and foreign currency climbed by $3.5bn to $22.4bn at the end of September.

Interest rates climbed in the London money markets, once again moving more than 1 percentage point higher than the current bank base rate of 10 per cent.

Money markets, Page 40

Record $100m deal in French shares

BY DAVID HOUSEGO IN PARIS

MORGAN GRENFELL Securities International, the brokerage division of the British investment banking group, has this week placed more than $100m of French equities with mainly British and American institutions in what is believed to be the largest ever brokerage deal in French securities.

The placement is the equivalent to the volume of shares traded in a day on the Paris Bourse and stemmed from a selling order by an international investment fund.

The difficulty that the Bourse would have had in absorbing such a large volume also underlines the potential fragility of the French stock market to large international flows of capital.

Morgan Grenfell said it made the bulk of the placement between Tuesday night after the Bourse closed and Wednesday morning before the opening. It thus avoided disruption of prices on the Paris Bourse and prevented all but a "minimal flow back" of the shares into the Paris market.

The move comes at a time when the French Treasury is concerned at both the impact on the Bourse of the Government's privatisation programme and the risk that the shares placed abroad of privatised companies could "flow back" into France.

Morgan Grenfell yesterday declined to reveal the name of the seller. Mr Basil Postan, head of the European division of Morgan Grenfell Securities International said that the shares were a mixture of "blue chip", second line shares and some more speculative stock. He said that the transaction showed "what

Continued on Page 28

UK Labour conference unites on economic policy

By Peter Riddell in Blackpool

A MAJOR redirection of the British opposition Labour Party's public ownership, social security and low pay policies was yesterday overwhelmingly approved by the party conference in Blackpool.

The party now has the bulk of its new economic policy in place and will go into the next general election on a platform of practicality and realism, signalling a clear victory by the leadership over the party's hard left.

In a skilful gesture of compromise, however, Mr Neil Kinnock, the party leader, said that a Labour government would expect US nuclear weapons to be withdrawn from Britain in little more than a year.

Britain, Mr Kinnock said, would remain a committed member of Nato but would not expect the protection of the nuclear umbrella.

Mr Kinnock's advisers now portray the Labour Party – which is ahead of the Conservative Government in most public opinion polls – as united with the major ideological debates of the 1960s and 1970s behind it.

The party now has the main planks of its economic policy in place and will go into the next general election committed to a redistributive social security and tax package, to a statutory minimum wage and to more limited forms of public or social ownership of industry.

In contrast with the fierce policy debates of the early 1970s, the major economic commitments were agreed yesterday with hardly any dissent. Demands for broader ranging renationalisation without compensation were easily brushed aside and there was no discussion of the tax implications of the public expenditure commitments.

During the debates, Mr Roy Hattersley, the shadow Chancellor of the Exchequer, reaffirmed the party's commitment to renationalisation of public utility monopolies like British Telecom and British Gas. But he rejected calls to bring back into public ownership other companies which have been privatised, since 1979, saying it would be wrong to spend legislative time on taking over for example, the Gleneagles Hotel.

He said the party wanted "to replace the old one-line slogans about nationalisation" and the post-1945 form of centrally organised state corporations.

Instead various forms of social ownership involving state shares in

Continued on Page 28
Conference report, Page 11

US tax reform – special report

The US tax reform package which President Ronald Reagan is about to sign into law has been hailed as the most radical such exercise since the 1940s. It broadens the US tax base and cuts tax rates for individuals and companies. But critics say that because the changes fail to raise additional revenue at a time of record US budget deficits, it does not address the country's most serious economic problem. A detailed analysis appears on pages 6 and 7, editorial comment on Page 26.

CONTENTS

EUROPEAN NEWS

Troubled Danes top survey in US on quality of life

A RECENT American survey ranked Denmark as the world's top country in terms of quality of life – a rating which has surprised some Danes, faced with growing social unrest and economic problems, Reuter reports from Copenhagen.

The survey, conducted by the University of Pennsylvania, assessed 124 countries in terms of social, political and cultural factors together with normal economic indicators.

Denmark came top because of its high standard of living, superior welfare services, regard for human rights and democratic traditions, lack of earthquakes and other natural disasters – and its low level of militarism.

It was followed by Italy, West Germany, Austria, Sweden, France, Norway, Ireland, the Netherlands and Belgium in the top 10, with Britain at number 12.

However, although it enjoys the highest material standard of living in the European Community, commentators note that Denmark continues to suffer from acute economic problems which threaten its cradle-to-grave welfare system.

The Government has predicted a state budget surplus this year for the first time since 1974, and unemployment and inflation rates continue to fall. But the balance of payments deficit still causes alarm.

Last year's record deflicit of DKr28bn ($3.6bn) is likely to be repeated this year, despite four major austerity packages in the past 18 months. Further measures are widely predicted this autumn to quench Denmark's galloping domestic consumer demand.

Danes are among the most highly-taxed people in the world. According to recent figures from the Organisation for Economic Co-operation and Development (OECD) figures, Denmark's tax burden represents 49 per cent of gross domestic product (GDP), a figure exceeded among OECD members by Sweden alone.

Direct taxation accounts for 70 per cent of state revenue and Denmark has a standard income tax rate of 49 per cent. VAT, at 22 per cent on nearly all goods, makes the country expensive for foreign visitors and residents alike.

With net foreign debt approaching DKr 250bn, some commentators have questioned how long Denmark can afford its sophisticated welfare state.

One million Danes – a fifth of the population – are old-age pensioners, making social welfare sacrosanct. The social sector accounted for less than 10 per cent of GDP at the end of the second World War, but the figure today is over 30 per cent.

Despite a legacy of politics, proportional representation and minority coalition governments, social problems abound. There are 15,000 divorces a year. One in six Danes receive mental care; 20 per cent take tranquillisers and the suicide rate is the West's highest at about five a day.

Swiss end compulsory home classes for girls

ONE of the cornerstones of Swiss male chauvinism is gradually being chipped away as the country phases out compulsory housekeeping classes for girls, Reuter reports from Zurich.

The canton of Zurich, the largest in Switzerland, has become the latest to abolish the once widespread practice of training girls in special schools to become good housewives.

In a referendum on September 28, Zurich voters approved the lifting of a requirement that all schoolgirls must complete several weeks of "further education" in housekeeping after they have left school and before they reach the age of 20.

Now boys as well as girls will learn some knitting, cooking and needlework as part of their basic education.

Zurich made housekeeping classes compulsory in 1931 and most other cantons had similar laws.

But in 1981, 10 years after Swiss women were first granted the right to vote in federal elections, a national referendum enshrined equality for women in the constitution and sounded the death knell for girls-only housekeeping classes.

Education is run by the 26 Swiss cantons. Three of them – Uri, Onwalden and Schaffhausen – have still to get rid of their compulsory classes.

In Zurich, the classes will be phased out

Election will mark watershed in Austrian politics

Patrick Blum reports on a deep change in the public mood

AUSTRIA'S forthcoming general election in November is likely to be its most important one for over a decade and a half. It will mark the end of an era dominated by the Socialist Party and almost certainly bring the conservative People's Party back into government.

Paradoxically for the Socialist Party, which now faces the prospect of either sharing power with the People's Party or going into opposition, this has been a period of unparalleled economic prosperity, political stability and social peace for Austria.

But after 16 years in power — alone from 1970 to 1983 and leading a coalition with the small right-wing Freedom Party since — the Socialist Party has grown tired. Problems are now surfacing that threaten to undo those very achievements.

Chief among these is the crisis in the nationalised industries which came to a head following record Sch 11.75bn (£554m) losses last year for Voest-Alpine, the state-owned steel and engineering group and the country's largest industrial concern. The public outcry that followed encouraged the Government, already facing a troublesome budget deficit, to make a dramatic turn-around on policy towards the nationalised sector.

Tough new rationalisation programmes involving substantial job cuts have been drawn up under a Socialist-led Government which says that it cannot continue to subsidise loss makers only to maintain employment—thereby abandoning a major tenet of Socialist policy in the 1970s and early 1980s.

The change of direction has met with the approval of the *People's Party. Mr Robert Graf,* its economic spokesman, went so far as to accuse Dr Franz Vranitzky, the Socialist Chancellor, of stealing the People's Party's programme. The two parties have come closer but the proposed lay-offs and the fear of tougher measures to come are causing new social and political *strains.*

The traditional political consensus was also shaken during the presidential election campaign. Allegations that Dr Kurt Waldheim, the conservative presidential candidate, had a Nazi past aroused passions turning the election into the most bitter *and divisive one in the* country's post-war history. The controversy brought relations between the two main parties to their lowest point for years as well as encouraging a resurgence of xenophobic sentiments.

There has been a deep change in the public mood. There is a growing impatience with politicians and with the established parties which is likely to benefit the more radical fringes on both sides of the political spectrum.

The Socialist Party has suffered most from the public dissatisfaction. It has seen its support decline steadily to reach an all time low earlier this year after a succession of damaging scandals and crises.

Dr Vranitzky, oppointed Chancellor in June after the Socialists' disastrous performance in the presidential election and Dr *Waldheim's victory, has sought* with some success, to turn the anti-Socialist tide. His decision to call for early elections following a sharp lurch to the right by the Freedom Party—the junior coalition partner—with the election of Mr Joerg Haider, a staunch right-wing nationalist, *as its new leader,* appears to be paying off.

Opinion polls put Dr Vranitzky well ahead of Dr Alois Mock, the People's Party leader, and this has given the Socialist Party new hope and energy, although it is unclear whether his personal popularity can be transformed into a Socialist victory.

The People's Party has gathered strength from the change in the public mood and from Dr Waldheim's victory. It is ahead in the opinion polls although only by a few points and with a large proportion of people still undecided.

The party is *split* into contending agricultural, industrial and white collar sections and this has made it difficult for Dr Mock to present a distinct and clear alternative. Nevertheless, after 16 years of opposition the People's Party is desperately eager to get back in power and it will fight hard to achieve this goal.

Recent polls suggest that neither of the two main parties is expected to win an absolute majority. This raises the possibility of a return to a grand coalition between them such as ruled Austria from 1945 until 1966 as the most likely outcome of the election on November 23.

There is popular support as well as powerful forces in both parties in favour of such a coalition as the only way to ensure that the next government wil tackle difficult issues. These calculations however could be upset by the "Greens" who have become an important factor in Austrian politics and by the Freedom Party whose new leadership has made it an alternative pole of attraction for protest voters on the nationalist far right.

In addition there are those who believe that a grand coalition will encourage complacency, patronage and bureaucracy. Dr Bruno Kreisky, the former Socialist chancellor and leader, has described the last grand coalition as a "great misfortune" for Austria. Its advocates today insist that it will be different since it will be established only to solve—on the basis of the widest possible support and over a relatively short period of time—some of the country's more urgent problems such as the budget deficit and the reorganisation of the nationalised industries.

On the socialist left there *are those* who believe that if the party fails to win a majority it should go into opposition rather than serve as a junior partner in a coalition with the People's Party. Among conservatives some would prefer a coalition with the Freedom Party despite its turn to the *far right. Moderates* within the People's Party are opposed to this and argue that it would further damage Austria's international image.

For his part Mr Haider has attacked what he describes as the imminent "elephants wedding" between the two main parties *to defend* their privileges. He has warned that the Freedom Party will use to the full its position in parliament in firm opposition to the future government.

His emphasis on defending the little man against party and state bureaucracies and his staunch nationalist views *will* attract back to the Freedom Party voters who objected to his predecessor's attempts to turn it into a Liberal party.

He is expected to win some votes from workers threatened with lay-offs in the state industries and from disgruntled People's Party supporters.

The Freedom Party could win at least 5 per cent of the vote and possibly up to 8 or 10 seats in the parliament.

The Greens provide a further cause for uncertainty. The largest of the green groups have agreed to run a united campaign with the aim of winning up to 14 seats in the 183-seat parliament. This is regarded as over-optimistic by most commentators who suggest that about half that number would be a success for the Greens who are not represented in parliament so far.

The Greens will take votes away from the two main parties with the larger proportion coming from dissatisfied *socialists and the young.* The Greens have adopted a short radical programme concentrating on environmental issues and civil rights, and Ms Freda Meisner-Blau, the leading Green candidate, said that the new grouping would not enter into a coalition with any of the main parties.

All of which has important future implications. With the two main parties expected to form a government together the role of opposition is left to the Greens and to the Freedom Party. A prospect which worries moderate politicians here who fear that the groups on the two extremes will grow at the expense of the traditional parties.

A grand coalition government makes effective *opposition* in parliament impossible. The two large parties would have such *overwhelming control that* parliament — already weak in Austria — stands in danger of being thoroughly discredited with long-term implications for Austrian democracy.

Mr Haider's comments that his party will assume the role of defender of parliamentary democracy appear to have reassured few politicians in Vienna so far.

Dr Franz Vranitsky (left), leader of the Socialists, and *Dr Alois Mock of the People's Party*

Italy drugs case in flames

BY JOHN WYLES IN ROME

WITH HINDSIGHT, every Italian policeman and politician knew it was bound to happen, but the authorities in Avellino, 50 miles south of Naples, were stunned late on Wednesday afternoon to see some of the evidence in Italy's freshest scanday going up in smoke.

Newspapers yesterday were in no doubt that a large fire in the local health authority's depository in Avellino was the work of the Camorra, the local branch of the Mafia.

Their target was the tens of millions of receipts for drugs dispensed by pharmacies in the province which may have been vital evidence in proving that *the Government has paid billions* of lire for prescriptions which never existed.

The fraud, uncovered by Mr Carlo Donat Cattin, the Health Minister, has embarrassed the pharmacy profession and the many health authorities in Campania, Calabria and Sicily.

The Avellino fire consumed virtually all drugs receipts submitted for payment to pharmacies in the province between 1980 and 1985. The president of the local health authority said it was a "very serious" setback, adding without a trace of irony: "Without the documentation we cannot possibly identify who is responsible

Croatia sued for cruelty

YUGOSLAV dissident is suing the state for physical and psychological damage suffered in jail, court officials said, Reuter reports

Mr Dobroslav Paraga, 26, took the republic of Croatia to court, suing for 11m dinars (£19m). In an indictment Mr Paraga alleges cruelty, including solitary confinement, beating and disregard for his poor health during four years in Croatian prisons.

He was arrested in 1980 for petitioning Yugoslav and foreign political forums for the release of prisoners jailed for verbal crimes.

Lisbon sacks directors

BY DIANA SMITH IN LISBON

THE centre-right Portuguese Government has sacked the directors of a state-owned glass works and a state-owned newspaper for failure to comply with agreements to improve the performance of these loss-*making enterprises.*

The Government of Prof Anibal Cavaco Silva has promised to make overmanned and heavily losing public sector enterprises comply with market forces. After the sacking of the boards of Irmaos Stephens, the glass works, and Diaril Popular, the state-owned Lisbon evening newspaper, that it was examining the performance of several public sector companies and would dismiss directors deemed to have exercised incompetent management.

The sacking of the Irmaos Stephens directors was strongly criticised by the opposition Socialist Party. The directors were members of the party, and the Socialists accused the Government of political spite. It retaliated by releasing figures showing the company's dismal results for the last three years and insisted that bad management not political considerations caused the dismissals.

FINANCIAL TIMES

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Greece urged to curb public sector

By Andriana Ierodiaconou in Athens

GREEK industrialists warned the Socialist Government yesterday that an economic stabilisation programme introduced one year ago to reduce inflation and domestic and external deficits, will fail to lay hte ground for future recovery unless it is supplemented with decisive measures to curb the public sector.

Speaking at a press conference, Mr Theodore Papalexopoulos, president of the Federation of Greek Industries, conceded that hte October 1985 stabilisation measures have brought down Greece's rate cf inflation and reduced the balance of payments deficit—helped by such external factors as the oil price fall and increased receipts from the European Community.

The Government has set a current account deficit target of \$1.7bn (£1.2bn) and an inflation target of 16 per cent for 1986, compared to \$3.3bn and 25 per cent last year.

At the same time the federation president said that the programme in the last 12 months "doesn't get at the causes that made it necessary, yet renders the economy sterile with restrictive measures which block, instead of opening up, the road to recovery."

Mr Papalexopoulos particularly criticised the Government's monetary and fiscal policies, which he said have resulted in a "massive transfer of resources from the private to the public sector."

The stabilisation programme set credit expansion targets of 17 per cent forthe public sector and 15 per cent for the private sector in 1986.

Turkish ex-PM fails to turn up for trial

A court hearing against former Premier Bulent Ecevit was postponed yesterday when he failed to show up, the Anatolia news agency reported, AP reports from Karabuk, northern Turkey.

Mr Ecevit was to go on trial for addressing an election campaign rally here in July, thereby violating a constitutional clause that bars 100 former politicians from active politics.

Conviction would carry a prison term of between one and three years. The judge postponed the trial until December

Public sector demands a threat to Swedish recovery

BY KEVIN DONE AND SARA WEBB IN STOCKHOLM

"WE HAVE got a brood of young cuckoos in the nest. You bring them up and they end up eating their own mother." Mr Leif "Blomman" (Blossom) Blomberg, the colourful and powerful leader of Sweden's 460,000 - strong engineering workers' union, does not tend to mince his words, but even by his standards his attack on the country's public sector unions and employers last week had seen few precedents.

His outburst came in the midst of the LO congress, the meeting of the blue-collar workers, trade union confederation, which was supposed to present a picture of a revitalised and unified union movement to the country.

The timing of Mr Blomberg's attack could hardly have been more sensitive with Sweden's 1.5m public sector workers poised on the brink of plunging the country into a renewed bout of industrial conflict, the third set of public sector strikes in less than 18 months.

More than 17,000 public sector workers have come out on strike, another 600,000 have imposed an overtime and recruitment ban, and an additional 175,000 postal, power station, railway, telephone, and other blue-collar workers plan an overtime ban from next Thursday.

The strike is aimed at disrupting the cash flow of the state and local authority administrations with key workers taken out of customs, tax offices, railways, state defence industries and the post office.

In public services, the main impact is being felt in health, child care and public transport, with some nurses, hospital technicians, child care workers, and transport safety inspectors stopping work.

Some operations will be delayed and certain wards have closed, while public transport — especially in Stockholm—is operating at 50-60 per cent of normal levels.

Industry will feel the effects more slowly, but in the event of a long strike, some companies are warning of component shortages because of delivery delays.

The strike by crane operators in some ports is hitting raw material supplies to the steel industry, and could disrupt exports of forest products.

Mr Feldt: warned of dire consequences

The mushrooming growth of the public sector in Sweden has been creating mounting pressures in the economy for many years. But the problems are intensifying as public sector workers fight to catch up with their colleagues in the private sector, and the government at last tries to make good its pledge that the public sector cannot be allowed to gobble up an ever greater share of the nation's resources.

Sweden's public sector is today bigger in proportion than that of any other industrial nation.

Expenditure by the public sector expressed as a percentage of gross national product has jumped from 24.7 per cent in 1950 to 65 per cent in 1985. In the same period the burden of taxation as a percentage of GNP has climbed from 21 per cent to 50 per cent. The public sector's share of the workforce, according to Saf, the Swedish employers federation, has risen from 21 per cent to 38 per cent from 1964 to 1984, jumping in absolute terms from 774,000 to 1.6m.

At the same time the swelling ranks of local authority and state employees have increasingly shaken the foundations of the country's traditionally highly centralised wage bargaining process, in which the blue-collar workers in the private sector and in particular Mr Blomberg's engineering workers had earlier led the way in shaping the so-called Swedish model.

The private sector unions, after the wage and cost explosion of the mid-1970s and the resulting years of recession and stagnation still fresh in their memories, have gradually accepted the Social Democratic Government's oft-repeated message that high nominal wage claims only fuel inflation, erode real wages and undermine the international competitiveness of the country's all-important export industries (chiefly engineering and forest products).

After many years in which Swedish labour costs have repeatedly risen faster than in competing countries such as West Germany, Sweden did manage to achieve a two-year settlement in the private sector last spring, which superficially at least should keep wage cost increases to about 9.5 per cent in the two years 1986 and 1987.

The shock-wave unleashed by the still unsolved assassination of Prime Minister Alof Palme at the end of February helped to create a mood of compromise and national unity, in which industrial conflict seemed out of place.

Helped by more than a little luck in the shape of falling oil prices and declining interest rates, Sweden's Social Democratic Government has achieved significant successes in the last four years in bringing the country back on to the road of economic recovery. The current account is back in surplus after long years of mounting deficits, inflation has come tumbling down, unemployment has been held at very low levels, the Government's budget deficit has declined and corporate profits have been restored after years in the doldrums.

Labour costs have always appeared to be the achilles' heel of the Social Democrats' economic policies, however, and the Government always knew that the main fight to protect the economic recovery it has so painstakingly built would this year have to be fought in the public sector.

The private sector started 1986 with virtually a clean slate, but in the public sector employers were already facing a carry-over from agreements conceded earlier, and a failure previously to bite the bullet, which meant that public sector wages would rise this year by around 6 per cent before a single öre was added in new settlements.

The Government claims the mediators' last offer made two weeks ago would push up public sector wages by 10.5 per cent and total labour costs 14.3 per cent in the two years 1986 and 1987.

The Government has landed itself with a public sector wage round of enormous complexity. A year ago Mr Bengt Johansson, the so-called "Wages" Minister, annoyed the unions with talk of there only being room for zero wage increases. In the spring, the Government undercut the direct wage bargaining process between unions and employers by appointing a mediating commission charged with finding a comprehensive umbrella settlement for the whole public sector.

In the midst of a doctors' strike all parties agreed to adjourn their wrangling for the summer holidays and a truce was declared from mid-June to late August.

During September the negotiations could be delayed no longer, however, and it did not take long for positions on both sides to become entrenched.

The mediators found it impossible to reconcile demands from the blue-collar workers for increases biased to the low wage earners, demands from the white-collar workers for clauses guaranteeing parity with the private sector and demands from the professional staffs for a wage profile to favour higher wage earners who have been penalised by earlier settlements geared to narrowing wage differentials.

Two weeks ago the Government in the shape of Mr Kjell-Olof Feldt, the Finance Minister, interfered explicitly in the negotiations by declaring the mediators' latest "final" offer to be unacceptable and warning of dire consequences for the economy in the form of a new wage and cost spiral which could only be paid for through higher inflation and higher unemployment.

For the moment the public sector unions are choosing to ignore the warnings, however, and in the process are threatening to split the labour movement and seriously embarrass the Social Democratic Government and its main supporters.

European IT groups set up test centre

By Terry Dodsworth

EIGHT OF Europe's leading information technology companies agreed yesterday to set up common testing facilities that will validate compatible operating standards for a wide range of data processing and office automation equipment.

The move, announced in Brussels, is widely regarded as an important step in the development of the European computer and information technology industry. European companies have been hampered both by the use of a variety of functional standards governing the way pieces of equipment communicate, and by the overriding strength of IBM, the US computer group which has its own operating system.

By adopting a common standard, the European groups will be able to approach customers with products that will be compatible with equipment from other European manufacturers —a situation which will generate more open competition among them, but will also make it easier for clients to chose non-IBM products.

Yesterday's agreement embraced Bull, the French computer group, ICL of the UK, Nixdorf and Siemens of West Germany, Olivetti and STET of Italy, Philips of Holland and Thomson of France. All eight are members of Europe's Standards Promotion and Application Group (Spag), which was set up in March 1983 to propose common communications protocols to help customers build their information systems with products from different vendors.

Over the last three years, the members of Spag have been working towards the development of common systems, but there has been no overall mechanism for testing compliance. The new company formed yesterday, Spag Services, will set up the validation tools to test the communication systems.

In a joint statement yesterday, the eight manufacturers said that the implementation of the communication protocols would "provide users in Europe and elsewhere with greater freedom and permit them to choose competitive and efficient solutions for the management of their information. It will also help build a wider and homogeneous market and reinforce the European information technology industry."

Belgian mayoral row defused

BY A SPECIAL CORRESPONDENT IN BRUSSELS

BELGIUM'S Interior Minister, Mr Charles-Fredinand Nothomb, has moved quickly to defuse the constitutional crisis sparked by the sacking of a French-speaking mayor. He has referred the case to the supreme court, the Cour deCassation, even bofore the Cabinet, which meets this morning, has had a chance to consider the affair.

The mayor concerned is Mr José Happart, whose appointment to the mayoralty of the mixed-language Fourons district, on the Dutch border near Maastricht, was annulled on Tuesday by the Council of State, a quasi-judicial body which oversees constitutional matters.

Mr Happart was dismissed because of his inadequate knowledge of Dutch, which is the official language for the Fourons district even though most of its citizens prefer to use French.

The court will not examine the merits of Mr Happart's case, but merely whether the Council of State has exceeded its powers in ordering his dismissal. It is likely to take at least a year to reach a decision, and in the meantime Mr Happart will be divested of his powers. But the delay will give the Government, and in particular Prime Minister Wilfried Martens, a renowned conciliator, time to seek a wider solution to Belgium's various linguistic disputes, of which the Fourons is undoubtedly the most prickly.

Mr Northomb's speedy action may have saved the Belgian Government, which by law is made up of an equal number of Dutch- and French-speakers, from splitting down the middle on linguistic lines. This seemed all too probable an outcome if he had put his proposal to the Cabinet, but he and Mr Martens are now hoping that their colleagues will agree to shelve the issue while awaiting the court ruling.

This move will also save Mr Nothomb from the embarrassment of having to make a fresh appointment to the mayoralty. The mayor's chair will probably remain vacant for some considerable time.

US threatens to quit IAEA

By Patrick Blum in Vienna

THE US yesterday threatened to pull out of the International Atomic Energy Agency (IAEA) if a resolution seeking sanctions against Israel was passed.

Mr Richard Kennedy, US ambassador at large for nuclear affairs, warned the IAEA general conference in Vienna that the US was not prepared to go on sitting through the same debates about Israel every year when more important issues needed to be discussed. "US support for the agency cannot be sustained if this conference year after year is to make this issue a central plank of its existence," he said.

Polish newspaper attacks amnestied Solidarity chiefs

BY CHRISTOPHER BOBINSKI IN WARSAW

A LEADING Polish newspaper has criticised recently amnestied Solidarity leaders for openly preparing for a return of their banned movement. The newspaper hinted that the authorities are not ready for the moment to put them back in prison.

The commentary in Zycie Warszawy yesterday was undoubtedly officially approved. It says that "attempts are being made to summon up the ghosts of the past."

Referring to the seven-man council set up on Tuesday including Mr Zbigniew Bujak, the Solidarity leader in Warsaw, it says that these are "people who, unfortunately, have learnt nothing."

The prominent weekly Polityka said the reaction of the authorities would be "calm." But added that there were "no grounds to think that any form of activity which could weaken the state will be legalised in Poland." This is an apparent reference to opposition demands for Solidarity's return.

Polityka implies that following the amnesty, the authorities are now looking to the West to lift the remaining economic restrictions on Poland, and resume the flow of vital credits.

OVERSEAS NEWS

Gandhi escapes unhurt from gunman

BY JOHN ELLIOTT IN NEW DELHI

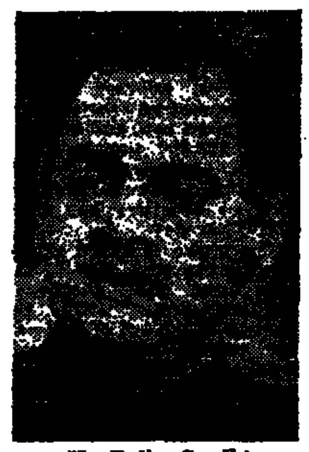
MR RAJIV GANDHI, India's Prime Minister, yesterday escaped an apparent assassination attempt in New Delhi when a young Indian missed him three times with shots from a home-made revolver at a memorial ceremony to celebrate the birth 117 years ago of the late Mahatma Gandhi, the country's independence leader.

The attack, the first on Mr Rajiv Gandhi, came 23 months after his mother, Mrs Indira Gandhi, was shot dead by Sikh security guards.

He immediately succeeded her as Prime Minister and has been surrounded ever since by a tight cordon of security which yesterday failed to protect him.

The shots were fired by a young man who outwitted a dozen uniformed and plain-clothes security guards but was later arrested.

The guards were accompanying Mr Gandhi, Mr Zil Singh, the President of India, and other senior ministers at an 8.00 am ceremony at the black marble Raj Ghat shrine which marks the Mahatma's cremation spot in Old Delhi.



Mr Rajiv Gandhi

An inquiry into the security lapse was launched last night and police authorities were playing down the possibility that the apparent assassination attempt was part of a terrorist plot involving Sikhs or other extremists.

The authorities said that initial investigation showed that the gunman, who is in his twenties, had no known extremist links. Police said he gave his name as Mohan Desai but was probably concealing his real identity.

Mr Gandhi, who was unharmed, left Delhi later for a tour of the western state of Mahrashtra. Indian television repeatedly showed pictures of him on this tour, apparently to emphasise that he was still alive.

Mr Gandhi's central Delhi home is surrounded by a flood-lit 10 ft earth embankment and barbed wire fence with closely-spaced sentry boxes. Roads are closed when he travels through the city in a tightly-packed convoy of cars, police jeeps and a small ambulance.

But yesterday the apparent assassin evaded security guards who searched the memorial ground at 5.00 am.

First-hand reports yesterday suggest that two shots were fired, at widely-spaced intervals, and were assumed by bystanders to be cars backfiring. After a third shot, Mr Gandhi is believed to have exclaimed that a gun had been fired and directed his security guards to investigate.

Black-clothed commandos rushed firing in the air across the memorial ground, apparently leaving Mr Gandhi unguarded, to a bush where the tall young man wearing olive-green military uniform stood up with his hands raised.

Pellets found later by the police indicated that the gunman had tried to shoot Mr Gandhi near the exit but failed to hit his target.

It was later reported that two members of the special security guard received bullet wounds and that three other people were hit by flying pellets during the action.

Mr Gandhi leaves on October 13 for an eight-day tour of Australia, New Zealand, Indonesia and Thailand. Yesterday, messages poured into Delhi from capitals around the world and from all parts of India, deploring the attack.

Call to release Philippines rebel leader

COMMUNIST rebel envoys said yesterday that they were ready to continue ceasefire talks with the Philippine Government but demanded that President Corazon Aquino first release a guerrilla leader and two others charged with rebellion, Reuter reports from Manila.

The National Democratic Front (NDF) issued its demand a few hours after the Government filed rebellion charges against Mr Rodolfo Salas, 39, said to be commander-in-chief of the rebel New People's Army (NPA), his wife, Josefina, and his bodyguard-driver.

The statement did not refer to the charges but said the arrests fuelled suspicion that "a major objective of the Aquino Government in calling for peace talks is to entrap and arrest leaders of the revolutionary movement."

It said Mrs Aquino must make up her mind whether she wants the talks to proceed.

S Africa miners return to work

BY ANTHONY ROBINSON IN JOHANNESBURG

SOUTH AFRICA'S mining industry returned to normal yesterday as 325,000 black miners of gold, coal, diamonds and chrome returned to work after Wednesday's stay-away to commemorate the 177 victims of last month's Kinross gold mine fire.

The huge show of support for the National Union of Mineworkers is expected to be reflected in a tougher stance in the continuing dispute over wages with the Chamber of Mines. The dispute will soon be examined by an independent mediator.

Meanwhile, President P. W. Botha and senior Cabinet ministers, including Gen Magnus Malan, Minister of Defence, and Mr Chris Heunis, Minister of Constitutional Development, toured black townships in the Port Elizabeth area which have been a focus of violent unrest and long-running consumer boycotts over the past two years.

During their five-hour visit, Ministers also inspected razor-wire fences constructed by the army to fence off sections of the New Brighton township from the other sprawling districts and squatter camps which surround this Eastern Cape city.

Mr Botha became the first white leader to visit the townships when he paid a visit to Soweto near Johannesburg in 1979, a year after becoming Prime Minister. But visits by senior Ministers have been infrequent over the past two years.

In recent weeks, however, the upgrading of black townships and encouragement to blacks to become owner-occupiers has become a top priority as the government also prepares to make modifications to the Group Areas Act.

A committee of the President's Council is due to report shortly on the working of this key apartheid law, which provides for racially-segregated living areas.

As the Cape Congress of the National Party in East London this week, the linkage between poor living conditions and high unemployment with two years of violent township protest was a constant theme of many speeches.

Mr Louis Le Grange, Minister for Law and Order, who hitherto has tended to blame agitators for unrest, was among those who emphasised the sociological factors behind township protests and the need for upgrading during the congress.

Gen Malan, whose troops have been engaged in support of the police in security action in the townships for the past 18 months, also visited Crossroads squatter camp near Cape Town earlier this week.

Crossroads was the scene of bloody fighting between rival groups last May which led to more than 50 deaths and left 70,000 people homeless.

He spoke to community leaders from Old Crossroads who had been promised new homes on the land laid waste by the forcible removal of the former residents of the New Crossroads section.

Thai budget 'to boost economy'

BY PETER UNGPHAKORN IN BANGKOK

THE THAI House of Representatives has voted in favour of a 1987 budget that ministers said would "cautiously stimulate" the economy.

The Government feels that it has a good opportunity to loosen the economic reins because of the recent improvement in the balance of trade, an expected current account surplus by the end of this year, the prospect of economic growth exceeding 5 per cent next year and the likelihood that inflation will only increase from 1 per cent this year to 2 per cent next year.

During the coming fiscal year, which officially started on Wednesday, the Government plans to spend Baht 227.5bn (£6.04bn), and expects to run up a deficit of Baht 42bn, or 3.5 per cent of Gross Domestic Product.

On past performance, however, the deficit could end up considerably larger because of repeated failures to meet revenue targets.

But, as opposition MPs pointed out, a quarter of planned expenditure is committed to debt servicing, some of it already refinanced to avoid excessive bunching of interest and repayment commitments.

The opposition, a loose coalition of 12 small parties forming one-third of the lower house, criticised the budget for taxing the poor. They objected to the Baht 41bn planned for defence spending which together with debt servicing, takes up 42 per cent of the budget.

The budget bill still needs to go through its committee stage, which should take 30 days, before returning to the House for its third reading. But significant amendments are unlikely. Meanwhile, the 1986 budget will apply.

The spending total was topped at the last minute with an extra Baht 1.5bn allocated for special investment projects that have to create employment, relieve poverty, use local resources, create foreign exchange, and involve private sector participation.

Revenue for fiscal 1986 is estimated at about Baht 20bn below target. Ministers hope that economic expansion, particularly in export manufacturing and food processing, will prevent another revenue shortfall.

But they are worried about weak purchasing power in the agricultural sector, and unemployment estimated at about 3m out of Thailand's 50m population.

Mahathir announces new rules to attract foreign investment

Drive to push Malaysia forward

BY STEVEN B. BUTLER AND WONG SULONG IN KUALA LUMPUR

IF YOU scratch the bark of a rubber tree with something as simple as a key or a coin, milky white latex begins to flow. Malaysia's economic development has been a bit like that —too easy.

On the strength of booming prices for its rubber, tin, petroleum and palm oil, the Malaysian economy grew by an average of 7.5 per cent annually for 15 years until 1985.

Now, with the markets for all these commodities gone sour at the same time, the Malaysian economy has stalled and is rolling backwards.

This week, Dr Mahatir Mohamad, the Malaysian Prime Minister, launched a fresh effort to put the economy back into forward gear.

Addressing businessmen in New York, he announced new rules designed to attract foreign investment by easing restrictions on foreign ownership, particularly in export industries.

The appeal marked an important reversal for a government that has tried to limit and control foreign investment in the country since 1970, when it first introduced the New Economic Policy (NEP). The NEP had two objectives—to eradicate poverty and to restructure society by eliminating severe economic disparities between the races.

A new class of Malay businessman was to take its place alongside the already well-established Chinese, who come from a minority accounting for around a third of the nation's population. Foreign control was to be reduced.

A series of policies that discriminated in favour of the Malay majority may have been a bitter pill, but economic growth provided an ample coating of sugar that made the whole package palatable.

Now, with the economy scraping along the bottom of a recession, this is no longer the case. Non-Malay dissatisfaction with the NEP showed strongly in last month's elections. Although Malaysians, particularly Malays, strongly returned the Government of Dr Mahathir power, the Malaysian Chinese Association, which is part of the ruling coalition, was heavily rebuked by Chinese voters in the cities and raised the spectre of increased racial polarisation.

Dr Mahathir Mohamad

"There is overall unhappiness in the Chinese community over deviations of the NEP," says Mr Lee Kim Sai, the association's deputy president, although he supports the NEP's original goals.

This kind of statement won Mr Lee a strong rebuke in a recent assembly of the United Malay National Organisation, the largest component of the ruling coalition. Dr Mahathir, who is also the organisation's president, delivered a pugnacious speech at the convention, roundly denouncing his critics and strongly defending the NEP.

Critics of the NEP say that a minority of Malay businessmen and politicians have made themselves wealthy under the NEP and that the disparity of wealth is greatest now within the Malay community.

In 1970, Malay ownership of corporate wealth (defined as Malaysian shares on the Kuala Lumpur Stock Exchange) was 2 per cent. Now it is about 20 per cent but still far short of the programme's goal of 30 per cent by 1990. Indeed, this goal now appears impossible to reach and the organisation has committed itself to extending the programme.

The Government, however, is in a bind. It wants to ensure that Malays will continue to enjoy economic and political benefits but it wants to do this while trying to restore the confidence of Chinese and foreign investors. These two goals may be impossible to achieve simultaneously.

Over the past five years, many Chinese businessmen (and recently, quite a few Malay businessmen and professionals) have channelled their money out of the country, with estimates running into hundreds of millions of dollars. It will be difficult to coax this money back.

Foreign investment approvals in the first half of the year fell 46.5 per cent to M$102m, compared with the previous year. In the present depressed climate, foreign investors are less prepared to accept restrictions on equity ownership, or the present system of doing business in Malaysia, with its stifling red tape and rife petty corruption.

Malaysia is competing with aggressive programmes to attract investment in neighbouring countries where investors do not have to concern themselves with regulations governing the racial balance of employees or the percentage of foreign ownership.

Malaysia also has a severe credibility problem, something Dr Mahatir acknowledged in his recent speech, that results from billion-dollar bank scandals and the Government's failed attempts to manipulate international tin prices.

The government's image is also unlikely to be aided by last week's expulsion of two correspondents of the Asian Wall Street Journal and the three-month banning of the paper. On the day the expulsion orders came, the paper had published an article raising questions about the financial dealings of Mr Daim Zainuddin, the Finance Minister.

The Malay industrial masterplan, sponsored by the UN and published earlier this year, acknowledged that the NEP had been an obstacle to further industrialisation. The plan pointed out that the Government's social and political objectives conflict with economic growth.

Foreign plantation groups which sold out as a result of the NEP during the late 1970s and early 1980s have gone to Indonesia, Thailand and the Philippines to invest, aggravating competition for Malaysia in commodities.

There are few large foreign or Chinese companies which have yet to comply with the NEP equity rules. So where and how is the 30 per cent Malay equity going to come? Privatisation may allow for some movemen that does more than just take away from the Chinese minority, but the real problem is how to get the economy going again. No one believes that commodities will ever play the role thye did in the past, and that means that manufacturing investment must rise.

Dr Mahatir defied his critics in August when he returned to power with an unexpectedly large electoral majority. The question now is whether he can follow this victory with a set of policies that can set a clear path for Malaysia's future in order to quiet the "murmurings of uncertainty," as one observer put it, and set Malaysia once again on a path of growth.

If not, fear is genuine that Malaysia will slip into stagnation after once coming so close to joining the ranks of Asia's newly - industrialised countries.

AMERICAN NEWS

Mexico in $11bn debt rollover

BY DAVID GARDNER IN MEXICO CITY

MEXICO and its international bank creditors are to re-finance more than $11bn (£7.6bn) in private sector foreign debt. This is in addition to an agreement in principle reached this week on new credits of $6bn and the restructuring of $52bn in public sector debt.

The rollover should mean an additional foreign exchange saving of between $2.5bn and $3bn in private debtors' principal payments which fall due next year and a lesser but still significant amount in 1988.

A Mexican Treasury's statement on the agreement, reached in Washington late on Tuesday, says that as "an integral part of the accord" the principles for the re-financing of private debtors' capital repayments were agreed, including obligations covered by the Ficorca foreign exchange risk scheme.

Ficorca is a Bank of Mexico scheme introduced in late 1983 to protect private foreign debtors against exchange rate instability. It is designed to level out their profile of repayments and create liquidity, and cover some $11.6bn in foreign owings overall. Most Ficorca contracts allow for eight years' repayment with four years' grace.

Meanwhile, Mexico's and Latin America's biggest private foreign debtor, Grupo Alfa, which owes $2.6bn, is due to meet its bankers today or early next week in New York to try to reach agreement on a restructuring which has been under discussion for more than four years.

At the beginning of the year Alfa had to pull out of the planned restructuring agreement, because projects on the group's performance had been overtaken by lower than expected growth in the Mexican economy and the effects of government price controls on the group's core steel business.

It is understood that what is under immediate discussion is $920m in debt owed by the group's holding company. Still on the table is a proposal that Alfa's bankers convert some $300m of holding company debts into 30 per cent of the group's common stock.

Another possibility raised earlier this year was that banks swap a portion of the group's debt, at a substantial discount, for Mexican public debt.

The government has recently loosened restrictions on debt swaps, in particular to encourage the conversion of public debt into foreign investment.

Guatemala seeks aid from Europe

By Anson Ng in Guatemala City

GUATEMALA'S charismatic president, Mr Venecio Cerezo Arevalo, has arrived in Madrid at the start of a two-week European tour designed to strengthen links between his Christian Democrat government and the European Community.

The tour, which includes West Germany, France, Belgium and Italy, will aim to persuade western governments that Guatemala's human rights record has improved sufficiently to allow further financial assistance to improve its backward rural infrastructure.

Relations between Guatemala and Spain have been strained since 1980 when 30 people died during the storming of the Spanish embassy by Guatemalan security forces.

Mr Cerezo's election victory last December ended more than 30 years of military dictatorship, but political violence has continued and opposition groups claim that about 600 people have died since the beginning of the year.

Guatemala's relations with Spain have been further marred by the involvement of Spanish banking interests in Celgusa, the Guatemalan paper manufacturer which said recently it was suspending debt repayments.

Nevertheless Mr Cerezo is hoping to exploit Spain's wish to improve its ties with Central America so that he can secure $10m (£6.9m) in fresh export credit from Spanish banks.

Both West Germany and Italy, where the Christian Democrats have strong political ties, have already indicated that they would be willing to increase aid to Guatemala. Bilateral aid from West Germany—the main source of European aid — has risen from DM 15m (£5.1m) in 1985 to DM 80m in 1986.

Mr Cerezo is expected also to seek European backing for his policy of "active neutrality" in support of greater democracy in Nicaragua as opposed to the military pressure favoured by the US. Guatemala is to host a meeting of EEC and Central American foreign ministers early next year to discuss ways of bringing peace to the region.

Zaccaro to face trial on corruption charge

BY ANATOLE KALETSKY IN NEW YORK

John Zaccaro: accused

JOHN A. ZACCARO, the New York developer and husband of Geraldine Ferraro, the Democratic Vice-Presidential candidate in 1984, has been indicted on charges of corruption by a New York grand jury.

The case against Mr Zaccaro, which centres around attempts to win a cable television franchise in the New York borough of Queens, is the latest in a series of scandals that has engulfed the New York political establishment since the suicide of the Queens borough president, Mr Donald Manes, in March last year.

Mr Manes had been accused of running a huge bribery operation from the unlikely base of the New York parking violations bureau, an agency responsible for collecting parking fines—a multi-million dollar business in New York.

As Queens borough president Mr Manes also had a powerful influence over cable television contracts and Mr Zaccaro is accused of having suggested to a cable television company which he had introduced to Mr Manes in 1981 that a payment of up to $1m might help it win the Queens franchise.

Another leading Queens democrat, Mr Michael Nussbaum, Mr Manes' campaign manager, was also indicted this week in connection with a payment allegedly solicited from a different cable television company. In the event, it appears that none of the payments was made and the franchise went to three other companies.

During the presidential campaign Mr Zaccaro was accused of managing a building whose tenants had been involved in pornography and organised crime, and shortly before the election he was removed by a federal judge from a position of trusteeship over the estate of a wealthy acquaintance.

The New York Democratic Party, meanwhile, has been reeling from the daily claims of criminality and corruption being made in the trial of Mr Stanley Friedman, the Democratic leader in the Bronx, another of New York's five boroughs.

This trial, which is also connected with Mr Manes and the parking violations bureau, has been running for several weeks and has dragged into court many of New York's key public figures.

Quiet new boy shines amid IMF mediocrity

By Philip Stephens, Economics Correspondent

THERE WERE few personal triumphs at this week's meetings at the International Monetary Fund.

Mr Nigel Lawson, Britain's Chancellor, spent most of his time worrying about the pound and dodging reporters' questions on whether interest rates would go up ahead of next's week's Conservative Party conference.

His speech to the IMF annual meeting, traditionally a keynote address, was so lacklustre that one of his aides confessed to falling asleep while reading the draft.

Mr James Baker, the US Treasury Secretary and master of the new initiative, fared little better. He learnt the hard way that Europeans are getting fed up with new masterplans for the world economy.

But then his West German counterpart, Mr Gerhard Stoltenberg, could also claim little from his battle of wills with the US Administration. At his daily breakfasts for the press the most he could offer was the hope that the Americans now understood better why they disagreed.

The Netherlands' Mr Onno Ruding also had a bad week. He arrived as odds-on favourite for the post of managing director of the IMF and quickly launched into a blizzard of lobbying. By yesterday, however, it seemed that his aggressive self-promotion may have narrowed rather than widened his lead over Mr Michel Camdessus of the Bank of France.

Amid the bickering and disarray, however, there was one key player who could have claimed credit for a considerable triumph. The fact that he did not probably explains how he achieved it.

Mr Kiichi Miyazawa, Japan's new finance minister, managed something that few of his predecessors could ever aspire to: he sat through a week of top-level international meetings and kept criticism of Japan's economic policies out of the headlines.

"He gave nothing and won everything," one European central bank official commented.

Of course, the new finance minister did come to Washington with the traditional clutch of Japanese promises. In this case a $25bn package of economic measures to stimulate the economy. And the fact that it was even more difficult than usual to judge just how much of the package is new probably helped.

But that cannot explain why one of the most hawkish officials in the US Treasury was prompted to comment: "It shows that the Japanese government is aware of its international responsibilities."

A better clue might be the fact that unlike virtually anyone else at a similar level in the Japanese Government Mr Miyazawa speaks fluent English. What is more, he converses. His immediate predecessor, Mr Noburu Takeshita, would sit in the supposedly informal meetings of the Group of Five finance ministers and simply deliver long statements in Japanese.

"Miyazawa listens, answers back, takes up points. You feel there is a dialogue," one European participant said.

"I cannot understand. Japan's surplus with the US is five times larger than ours, but we are getting all the criticism," a frustrated West German official added.

Even Mr Lawson, who spent much of the earlier part of this year waging a personal campaign against Japan's failure to restructure its economy, seemed content with a few asides on the need for further action.

Of course, all that could change, particularly as the trade imbalance between the US and Japan looks the most intractable of the world's economic problems.

In Mr Miyazawa, however, the Japanese do seem to have found a diplomat to take the heat off for the time being.

Second Argentine bank fraud is discovered

BY TIM COONE IN BUENOS AIRES

A SECOND suspected bank fraud in a week has been uncovered by Argentina's Central bank. Operations of the private bank, Banco Pringles, based in Buenos Aires, were taken over by the central bank on Wednesday after irregularities amounting to Australas 12m ($12.8m) in export financing were discovered.

Banco Pringles is one of the smallest banks in the Argentine banking industry, having deposits of only Aus 5m at the end of May. None-the-less Central Bank rediscounts had been authorised to the bank to finance what are now suspected to be fraudulent export operations, according to a Central Bank spokesman.

Last week, Central Bank took over another private bank, Banco Alas, after discovering fraudulent export financing deals valued at $110m. Five bank directors are in custody and are expected to be charged this week. Investigations into both cases, however, are being held up by the disappearance of files from the Central Bank which contain information on export finance operations by Banco Alas and Banco Pringles, and three or four other Argentinian banks.

Further fraud could therefore yet be uncovered.

In a parallel development, the Central Bank announced important reforms to the Argentinian banking industry on Wednesday, aimed at squeezing out of the market a large parallel financial system which has grown up in recent years.

Fresh peace initiative by Contadora

By David Gardner in Mexico City

FOREIGN MINISTERS of the Contadora and Contadora support group of Latin American nations have renewed attempts to seek a negotiated peace to the conflicts in Central America.

Meeting in New York, the foreign ministers of Mexico, Colombia, Panama and Venezuela (the original Contadora group), and Argentina, Brazil, Peru and Uruguay (the so-called Lima group), issued a statement entitled "Peace is still possible in Central America."

The move comes as the extra $100m (£69m) in US aid for Contra forces fighting the left wing Sandinista government in Nicaragua is expected to be released by Congress, and follows Contadora's failure in June to get the five Central American nations to agree on a regional peace treaty.

Brazil seeks new system of economic monitoring

BY PETER MONTAGNON IN WASHINGTON

BRAZIL HAS been working behind the scenes at the International Monetary Fund annual meeting in Washington to develop a new system of monitoring its economy that will pave the way for a multi-year rescheduling arrangement with its creditor banks.

The new scheme is likely to involve the World Bank in evaluating its medium-term economic strategy and would get round the problem created by Brazil's continuing refusal to accept enhanced economic monitoring by the IMF.

Mr Dilson Funaro, Brazil's Finance Minister, has reiterated that Brazil would only accept its annual Article IV consultation with the IMF—to which every member regularly submits. But this is not enough to satisfy commercial bank creditors who want closer economic supervision if they are to agree a rescheduling.

Details of the new monitoring schemes under discussion remained sketchy as the IMF meeting drew towards a close yesterday.

What is clear, however, is that after their disappointment with Mexico's economic performance, senior bankers are now keen to patch up their differences with Brazil and promote it as a model debtor.

Negotiations on a multi-year rescheduling are due to start in earnest later in the year.

AT&T clinches Singapore deal

By Steve Butler in Singapore

TELECOMS, the Singapore telecommunications authority, yesterday announced an agreement to buy $41m of digital switching equipment from AT&T of the US.

AT&T will supply and install two digital 5ESS systems as international gateway telephone exchanges. The systems will be equipped at first with about 4,000 lines of international circuits each. The first is to be commissioned in late 1988.

The contracts are part of an effort to make Singapore's telecommunication system among the most modern and will allow the phasing out of analogue systems. Telecoms is spending about $3.3bn over five years on optical fibres, submarine cables, and digital switching.

Strike to save Argentine paper

THOUSANDS of radio, television and newspaper journalists were on strike in Buenos Aires yesterday to seek government backing for moves to save an Argentine newspaper, Reuter reports from Buenos Aires.

Representatives of the newspaper, Tiempo Argentino, reached an agreement with union leaders early yesterday for a 20-day period of mandatory conciliation aimed at studying ways of avoiding a shutdown.

The Buenos Aires Press Workers Union said a strike in support of Tiempo Argentino employees, which began on Wednesday, would continue yesterday to push for government ratification of the worker-management pact. The Government did not say whether it would ratify the pact.

Taiwan imports move ends dispute with US

BY BOB KING IN TAIPEI

TAIWAN ended its long-standing practice on October 1 of valuing imports for tariff purposes according to government-set valuation tables.

This ends a long dispute with the US. The US had been promised by Taiwan that the valuation tables would be done away with by January 1 this year. In July, President Reagan threatened Taiwan with unspecified sanctions against its exports to the US because of its failure to keep its promise.

Taiwan customs will now rely on the invoice or declared value of goods imported.

Goods which seem greatly undervalued to customs inspectors, however, will require a so-called tariff deposit against possible additional tariffs and fines while customs verifies the declared value.

High ticket consumer goods such as electrical appliances and cars will probably benefit most.

Flaws that could be fatal in a radical fiscal plan

By Michael Prowse

The Reagan Administration's tax reform legislation has been hailed as the most radical such exercise since the 1940s. It broadens the US tax base and cuts tax rates for both individuals and companies. But the reform ***fails to raise revenue at a time of record US*** **budget deficits, puts a heavier burden on US business and raises the cost of capital. Its detractors say it fails to address America's most serious economic problems and consequently will not stand the test of time.**

THE most striking feature of America's ambitious tax reform legislation is the reduction in the top personal tax from 50 per cent to just 28 per cent. Never mind that after allowing for the phasing out at high incomes of the lower 15 per cent bracket, the real top rate is 33 per cent. From a European perspective, these rates are staggeringly low for top earners and seem bound to provoke some kind of reaction.

The Americans have abandoned the post-war assumption that income tax must be seen to be highly progressive (in other words raise proportionately more money from the rich than the poor. Economists, it should be noted, have long preached that progressivity depends not on headline marginal rates of tax but on average or effective tax rates, in other words on total tax paid as a proportion of income.

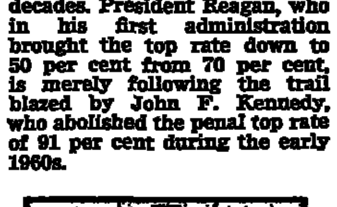
Confusion on this elementary but central point seems to have cleared on Capitol Hill in Washington but remains rife elsewhere. President Reagan has not, as many will assume, *destroyed the progressivity of* the US tax code by slashing top marginal rates. Instead, by all available yardsticks, the measures just enacted will *increase* its progressivity, albeit only modestly. The explanation of this paradox is that rich Americans have long made extensive use of tax shelters and thus paid much less tax than suggested by fearsome top rates.

Calculations by Mr Donald Kiefer, a public finance specialist at the Congressional Research Service (see chart below), show that the tax act will reduce the tax burden on low-income households proportionately more than that on higher earners. More sophisticated measures of "redistributional" and "structural" progressivity also suggest that the legislation will improve the fairness of the system.

This, admittedly, is not saying a great deal. The existing US system is not particularly progressive: those with incomes of $200,000 a year or more pay *on average* well *under* 25 per cent of their income in tax, and the tax reform plan will ensure that this proportion falls slightly. A cynical interpretation of the Reagan act is that it has merely legitimised the tax avoidance and evasion of decades. In the bad old days, the well-off had to use all kinds of complex devices to keep their tax bill low; now, thanks to the new legislation, they are saved the effort. In Mr Reagan's America, the rich are no longer expected to pay high taxes.

This, frankly, appears to worry few Americans. Only a handful of numerous economists, accountants, aides, lobbyists and businessmen interviewed in Washington, New York and Boston opposed the cuts in top rates, or believed that the system should be made much more progressive. As Mr Bruce Bartlett, an economist at the conservative Heritage Foundation, argues: "We are not as a people very egalitarian. We have wars and that creates the need for revenue. We then need to tax the poor and to do this we must be seen to tax the rich more."

As an explanation of the path of marginal tax rates, this at least broadly fits the facts. Tax rates hit peaks in both the world wars, when revenue demands were intense, but, apart from blips during the Korean and Vietnam conflicts, have been falling for the past four decades. President Reagan, who in his first administration brought the top rate down to 50 per cent from 70 per cent, is merely following the trail blazed by John F. Kennedy, who abolished the penal top rate of 91 per cent during the early 1960s.



Benefits for rich – and poor

The breadth of support for the income tax changes is surprising. Conservatives like Mr Bartlett can be expected to cheer as marginal rates fall. Yet, as Ms Mary McAuliffe, the Senate Finance Committee's deputy chief of staff, stresses, some of the low-income pressure groups are also "ecstatic." The Centre on Budget and Policy Priorities is a case in point.

It is grateful that "well over $5bn a year in tax relief" is being targeted on the low-paid and argues that the tax act will do more than any other legislation enacted in the past decade to transfer money to low-income Americans.

Mr David Kahan of the Centre points out that by 1988 a typical family with two children on the US poverty line (ie earning $11,937 a year) will see their combined federal income and payroll taxes fall by more than $1,000—from $1,302 to $245, resulting in an increase in after-tax income of nearly 9 per cent. Single-parent poverty-line families could do even better.

The driving force behind the personal tax reform, however, was not concern about "vertical equity"—the fairness or otherwise of the relative tax burdens borne by families at different income levels. Americans have been much more intent on improvements in "horizontal equity," in other words, on ensuring that households with the same total income pay roughly the same amount of tax. This is the concept of fairness that matters most in the US, and it explains the ferocity of the onslaught on personal tax shelters.

The tax declared by high earners will no longer, as one Wall Street investment banker puts it, be quite so much a "matter of taste." The key measure is a provision strictly limiting individuals' ability to offset losses from "passive" trade or business activities against "active" income.

Passive losses are those from activities in which taxpawers are not involved on a "regular, continual and substantial basis." They frequently involve real estate deals and limited partnerships in loss-making businesses. Their use is now curtailed *because passive losses will no* longer be deductible against "active," ie salaries and profits from businesses in which taxpayers materially participate.

The clampdown on artificial avoidance devices is part of a wider attempt to level the personal tax playing field. Other base-broadening measures include: the taxation of capital gains as ordinary income; the repeal of deductions for state and local sales taxes; the removal of deductions for consumer interest; and tighter rules on charitable donations.

However, the big reductions in marginal rates and the substantial increase in tax thresholds will much more than offset the base-broadening measures. For the second time since President Reagan took office, a large majority of American individuals will enjoy substantial tax cuts; the overall reduction in personal income taxes will average 5 per cent. The revenue loss over five years is officially put at $120bn; it might be much more if taxpayers rearrange their affairs radically.

Yet in theory, unlike its predecessor in 1981, this tax reform act will be "revenue neutral:" the revenue lost through personal tax cuts will supposedly be exactly offset by an increase in business taxes. Moreover, the rise in business taxes will occur in spite of a sharp cut in the corporate tax rate from 46 per cent to 34 per cent.

This circle is squared partly by the repeal of the investment tax credit, which is expected to raise about $143bn in all over the next five years, partly by significantly tougher accounting rules, which are expected to boost revenue by some £65bn, and partly by a much tougher "minimum" corporate tax designed to ensure that all companies pay some tax. In addition, foreign tax credit rules will be tightened and many industry-specific concessions removed — commercial banks, for example, will no longer be able to deduct bad debt reserves.

Wall Street analysts, university professors and forecasting groups have been striving to evaluate the economic implications of the tax legislation since its contents became known in August. It is not quite true to say that there are as many views as there are economists. But the act's enormous complexity makes predictions hazardous. There was never a greater need for Harry Truman's legendary one-armed economist: somebody who is incapable of saying "on the one hand . . . ."

So far as aggregate demand is concerned, the consensus view is that the legislation will act first as a depressant and then as a stimulant, reflecting the official projections of revenue changes over the next few years. Overall, if the legislation does prove less than revenue neutral, it could tend to be expansionary.

However, Mr Larry Summers, a young economics professor at Harvard, argues that efforts to predict the demand effect of tax reform are a waste of time since the Federal Reserve Board under Mr Paul Volcker is effectively managing aggregate demand through its monetary policy. The tax reform act is just one more factor that will be taken into account and is by no means the most important. The success or failure of the Gramm-Rudman deficit-reduction programme is more crucial.

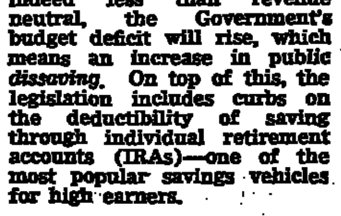
There is thus no reason to think that the path of aggregate demand will be affected by tax reform. If tax changes tend to raise demand above the Fed's target level, the monetary authority will take measures to bring it back into line—for example by raising interest rates. Economic analysis of the legislation should therefore concentrate on the supply side effects: its impact on things like investment and saving.

Consider first the legislation's impact on saving. The consensus view is that it will boost saving a little. The reasons cited are the sharp reduction in marginal tax rates, the curbs on the deductibility of consumer interest and the clamp-down on real estate tax shelters, which may result in more money flowing into financial assets.

However, Goldman Sachs and Salomon Brothers, two of Wall Street's top investment banks, *both reject this reasoning*, arguing that tax reform will depress aggregate saving or at best leave it unchanged. Mr Aaron Gurwitz and Ms Susan Hering, economists at Salomon, point out that the shift in the tax burden from people to companies is a shift from low to high savers. In addition, heavier taxation of capital gains will encourage companies to pay out dividends instead of retaining earnings.

Mr Bob Giordano, an economist at Goldman Sachs, warns that in the US "the savings rate is not very responsive to the return on saving." The elimination of consumer interest deductibility will not have a dramatic effect because only 28 per cent of taxpayers claim non-mortgage deductions and because those that do find it quite easy to use mortgage debt to finance non-mortgage borrowing.

Moreover, if tax reform is indeed less than revenue neutral, the Government's budget deficit will rise, which means an increase in public *dissaving*. On top of this, the legislation includes curbs on the deductibility of saving through individual retirement accounts (IRAs)—one of the most popular savings vehicles for high earners.



Disincentive to buying plant

The impact of tax reform on US capital formation seems more clear-cut. A large majority of economists predict that the repeal of the investment tax credit (ITC)—worth 10 per cent *of the cost of new machinery* and equipment—coupled with marginally tougher depreciation schedules, will depress capital spending. Prof Summers of Harvard suggested, in testimony to the Joint Economic Committee of Congress, that in the long run America's stock of plant and equipment could be reduced by 10-15 per cent.

He believes the tax act is "perverse." The cut in the corporate tax rate is a reduction in the tax on "old capital" while the repeal of the ITC is an increase in the tax on "new capital." He says the government is "tilting the playing field towards yesterday" and favouring entrenched companies which make windfall profits on past investments.

Many US economists agree that the repeal of the ITC will temporarily depress aggregate investment but they nonetheless support its abolition as a step towards a more "neutral" tax system. They regard the ITC as an unjustified "subsidy" for certain kinds of investment and believe its repeal will lead to increased efficiency. Capital will be better allocated and this could raise its productivity.

This argument is rejected outright by Prof Martin Feldstein, formerly chairman of the President's Council of Economic Advisers and now back at Harvard and head of the National Bureau for Economic Research. He argues first that the so-called non-neutralities within the corporate sector are much less important than the glaring difference in the tax treatment of residential and corporate investment.

His view is that, given the background of huge subsidies for owner-occupied housing, any increase in the tax on plant and equipment constitutes a bigger rather than a smaller distortion in the tax system. Further, even if the housing anomaly is ignored, abolishing the ITC will not create a more level playing field within the corporate sector.

The key point that is overlooked, he maintains, is that the most important tax concession of all is interest deductibility and this favours commercial buildings because "they are much moe easily leveraged." Offices, hotels and shopping centres and assets that have resale value are tax-favoured because they can be financed by mounds of debt. *The ITC was merely an inadequate* counter-balance to this distortion.

Prof Summers pours scorn on the suggestion that the ITC favoured capital-intensive industries. Think about intangible investment, he says: expenditure on the likes of advertising, R & D, marketing can all be "expensed" (i.e. deducted in the first year) even though they provide a stream of future benefits just like tangible investment. The ITC and accelerated depreciation merely bring the tax treatment of physical equipment into line with that of intangibles. Anyway, he asks, if plant and machinery were really so favoured, why did the tax shelters involve property rather than lathes?

He concludes that the "neutrality arguments are vastly overplayed and often wrong." Prof Feldstein says that careful empirical studies show that the gains from neutrality or "more accurately the gains from changes that are said to improve neutrality" are tiny—"of the order of a tiny fraction of 1 per cent of GDP." Both economists believe that the ITC should be re-instated and that, ideally, the US should move towards 100 per cent first year capital allowances—the system that Mr Nigel Lawson scrapped in his 1984 British tax reforms.

If the legislation does indeed depress investment significantly but has only a marginal effect on saving (positive or negative), it is likely to close the gap between US domestic saving and investment. It may thus reduce America's dependence on foreign capital inflows and help to put more downward pressure on both interest rates and the dollar. This would improve the US's trade competitiveness and perhaps lessen the danger of protectionism.

In this respect the present legislation is the mirror image of President Reagan's first stab at tax reform in 1981. Then the introduction of much more generous depreciation schedules raised the after-tax return on capital and boosted investment relative to saving. Foreign capital was sucked into the US, the dollar rocketed and trade competitiveness deteriorated.

Prof Summers maintains that both tax reforms were wide of target because they operated principally on investment and failed to address America's central economic problem: a deficient domestic savings rate. The only way to achieve a sustained increase in investment and growth, which will not be jeopardised by a deteriorating trade account, is to boost domestic savings.

A controversial aspect of the legislation is the extent of the shift in the tax burden from individuals to companies. The planned increase in business taxes of $120bn will boost the share of US taxes paid by com*panies by about a third — from* 7.5 per cent in 1986 to nearly 10 per cent in 1987.

It is true (see chart below) that the ratio of corporate taxes to corporate income has been declining since the late 1960s, but many economists wonder if now is the right moment to put more strain on US business. Some, such as Dr Charls Walker, the doyen of Washington's lobbyists, say it is "bizarre" to skew the tax increase towards manufacturing industry, the sector which *is facing the most intense* import competition. (Capital-intensive manufacturers were among the biggest users of the ITC).

He argues that the increase in business taxes *is* particularly ironic, because President Reagan spent most of his political career campaigning vigorously against corporate taxes. The shift seems generally popular, however: pressure groups such as Citizens for Tax Justice have made great play out of the failure of many of *America's largest and most* profitable companies to pay taxes in recent years.

"Nothing makes the case for tax reform better than this scandalous, ongoing tax avoidance by money-making companies," declares Mr Robert McIntyre, its director of tax policy.

The point missed by zealous advocates of business taxes, of course, is that *people* always end up bearing the burden of any tax. There never was a lathe or a filing cabinet that *paid a dollar in taxes. The* question is: which individuals bear the burden of corporate taxes—shareholders, employees or customers ?

The majority view among US economists is that the owners of capital—the shareholders—bear the main brunt of business taxes. The shift from personal to corporate taxes is thus regarded as adding to the progressivity of the legislation. Some liberals are delighted to point out that Mr Reagan is the first Republican President to raise the tax on capital by $120bn.

However, Mr Don Fullerton, the senior US Treasury economist directly responsible for tax policy, warns against assuming that equity investors are typically the ultra-rich. He points out that retired people living modestly off capital income are big holders of corporate stock. They could be hit both by the switch to business taxes and by the taxing of capital gains as ordinary income, without adjustment for *inflation*.

Salomon Brothers has a still more gloomy prognosis. Since a large portion of the higher business taxes will be borne by "rust-belt" industries already under intense competitive pressure, the burden may ultimately fall on workers in the form of lower wages and higher unemployment. If so, the shift will indeed by regressive.

High-tech, knowledge-intensive companies are generally assumed to be among the winners in the tax reform lottery. They retain the special R & D tax credit (when other industries are losing special concessions), they benefit from the lower corporate tax rate, and they suffer little from the repeal of the ITC because they are rarely heavy users of tangible capital.

Mr George Hatsopoulos, the president of Thermo Electron Corporation of Waltham, Mass, disputes that they are winners. He argues that the simultaneous lowering of the personal tax rate and raising of the effective levy on capital gains will put companies like his under intense pressure to distribute earnings. To date, Thermo Electron "has never paid any cash dividends."

The pressure to maintain a steady flow of dividends will, he believes, further exacerbate the short-sightedness of decision-making in US industry. In his view the tax reform legislation is "anti-growth": mature, large companies in safe markets will gain at the expense of risky, fast-growing ventures.

The capital gains tax changes have been widely criticised—and not just by entrepreneurs and venture capitalists, who worry that small firm creation will suffer. Prof Larry Lindsey, who runs the freshman economics programme at Harvard, has been one of the more prominent critics. His argument is that changes which impede growth and efficiency can be justified only if they also result in more revenue or greater fairness: the CGT changes, in his view, achieve neither goal.

Econometric studies show that receipts from CGT are extremely sensitive to the rate at which the tax is levied. If the rate is too high, taxpayers simply cease to realise their gains and so pay no tax. Mr Lindsey calculates that the revenue-maximising rate is about 20 per cent. He expects the rich (those with taxable annual incomes over $200,000) to pay about $1bn *less* in capital gains tax as a result of the Reagan reform.

The lost revenue will be made up by much less well-off taxpayers who will face proportionately much larger increases in capital gains tax rates than the rich. For example, those with incomes between $30,000 and $40,000 (many retired couples) will face a near-quadrupling of their CGT burden—an increase in the average rate from 8 per cent to 28 per cent.

One of the great claims made for the Reagan reform is that

Not so simple as all that

it will dramatically simplify the US code, giving Americans a "tax system they can be proud of." Most experts, however, seem to believe it will make an already complex system more complex. The new tax code will certainly be longer than the existing one, and that is before allowing for a 1,000-plus page "technical corrections bill" next year.

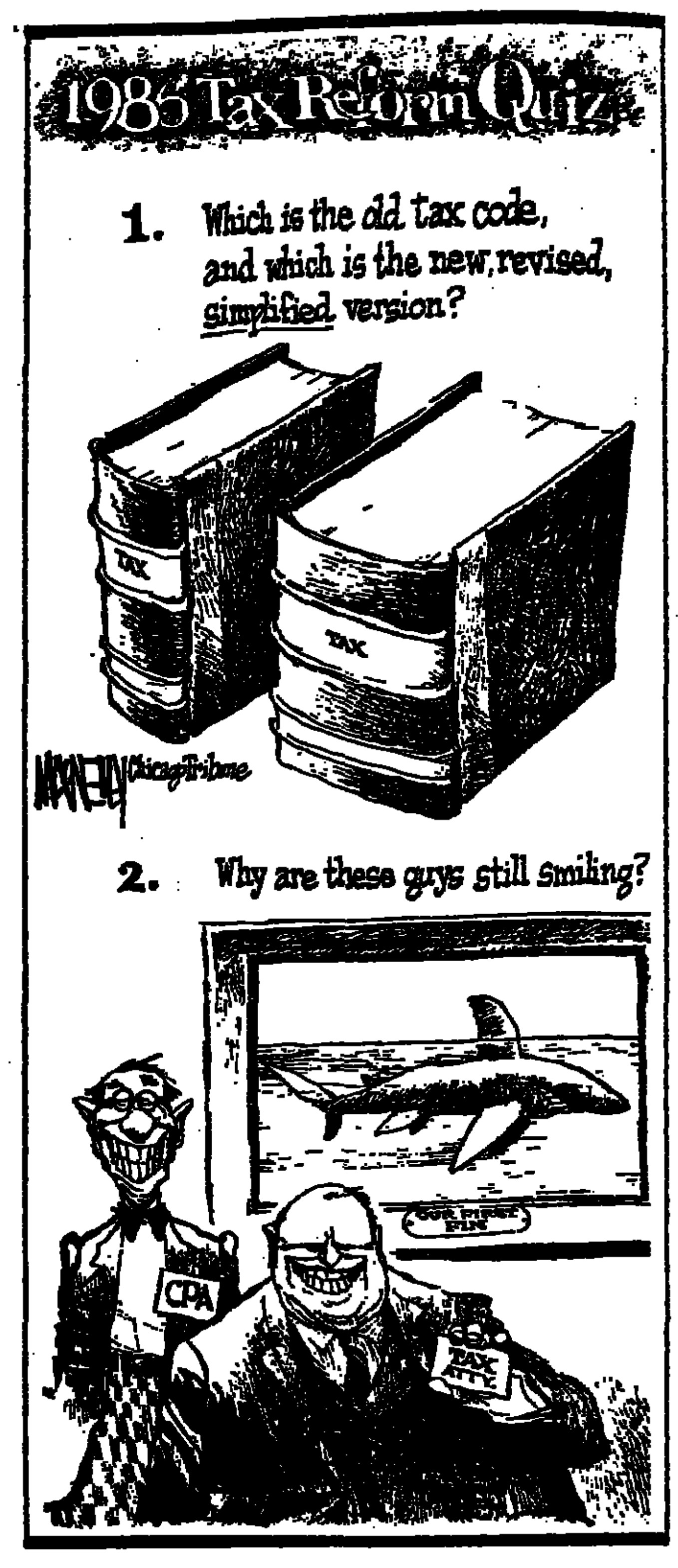
Accountants point out that reducing the number of tax bands from 14 to two does not simplify the system in any meaningful sense (people will consult tax tables to determine their liability just as before) and that the 6m households which fall off the tax rolls will nevertheless have to file forms to demonstrate that they do not need to pay tax.

Fewer people will "itemise deductions" but this gain in simplicity will be much more than offset by the tough new laws designed to limit the use of tax shelters. Mr Emil Sunley and Mr Clinton Stretch of Deloitte, Haskins & Sells, for example, argue that the legislation "introduces to the taxation of individual income an incredible new array of distinctions between different types of income and expense."

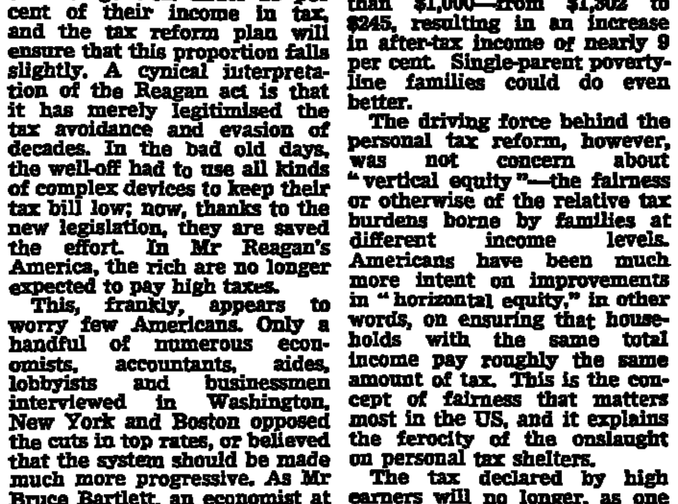
Almost all businesses are likely to experience a significant increase in the complexity of their tax affairs, principally because of the beefing up of so-called minimum taxes.

These used to be regarded in America as a sort of backstop,

Continued on page 7

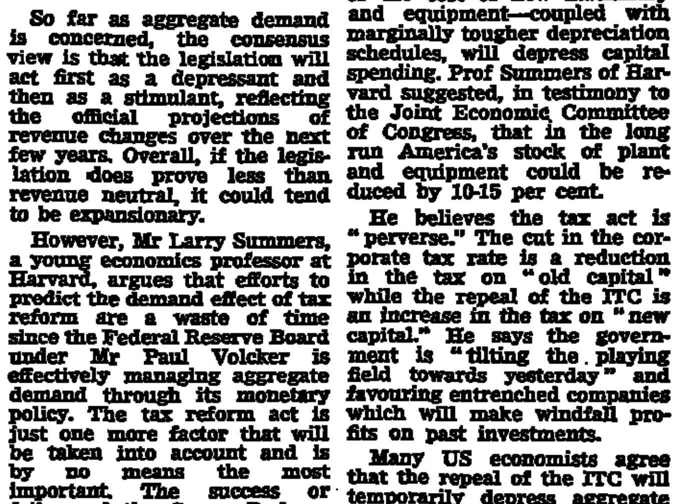


THE BREAKDOWN OF US TAXES



Source-OECD

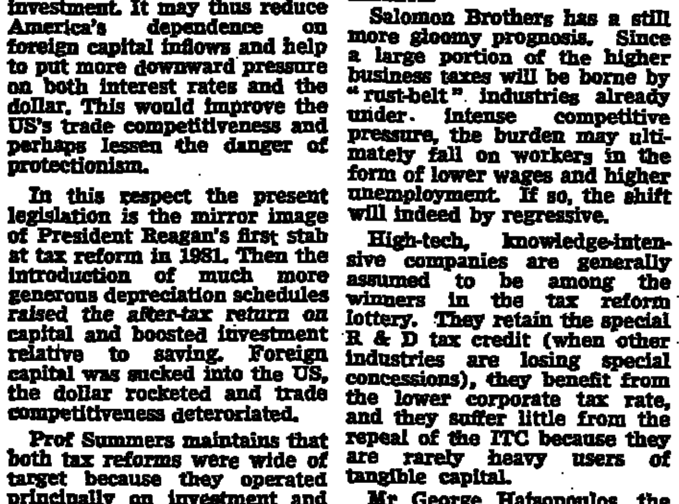
HOW TOP TAX RATES COMPARE



Note: Figures do not in general reflect varying local and state taxes
● Lower rate on distributed profits
+ Includes surcharge for provincial income tax

Source: Deloitte, Haskins & Sells

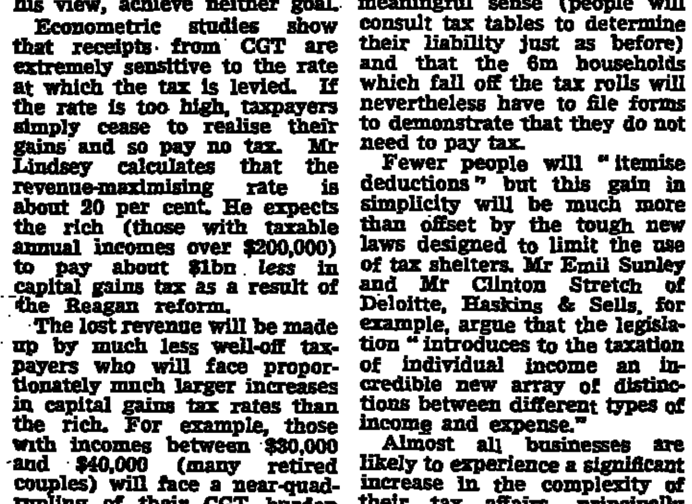
THE CHANGING BURDEN OF PERSONAL TAX



Source: Congressional Research Service

* Tax paid as proportion of income

SIMPLIFYING PERSONAL TAXES



Source: Deloitte, Haskins & Sells

THE MAIN CHANGES – individuals

	NEW LAW	OLD LAW
Tax rates	2 rates: 15% and 28%* (for joint filers 28% band starts at $29,750)	14 rates: 11% to 50%
Personal exemption	$2,000 indexed from 1990 (phased out for high earners)	$1,080
Standard deduction	$3,000, singles; $5,000, joint filers	$2,480, singles; $3,670, joint filers
Interest deductions mortgages	Principal and second home only	All homes
other	No consumer interest; investment interest up to value of investment income	$10,000 plus value of investment income
Capital gains	Taxed as ordinary income; top rate 28%	60% of long-term gains excluded from tax; top rate 20%
State and local taxes	Deductible except sales tax	Fully deductible
Tax shelters	"Passive" losses cannot offset other income	No limit on passive offsets
Pension deductions		
Individual retirement accounts	$2,000 but phased out for high earners with company plans	$2,000
401(K) savings plans	Up to $7,000 a year	Up to $30,000 a year
Medical expenses	Deductible above floor of 7.5% of adjusted gross income	Deductible above floor of 5% of AGI
Charitable donations	Deductible only for itemisers	Deductible for everybody

* Some high earners will face effective marginal rates of 33 per cent due to phasing out of personal exemption and lower tax band.
Note: Transition to new rates begins 1987, fully effective 1988. Standard deduction raised in 1988, personal exemption raised to $1,950 in 1989.

THE MAIN CHANGES – companies

	NEW LAW	OLD LAW
Corporate tax	34% top rate (lower rates if income less than $75,000)	46% top rate (lower rates if income less than $100,000)
Investment tax credit	Repealed	6-10% on equipment
Depreciation	Eight asset classes, 3 to 31.5 years. Less generous schedules	Five asset classes, 3 to 19 years. Accelerated schedules
Minimum tax	Greatly strengthened; book income a preference item	Backstop only
Business meals and entertainment	80 per cent deductible	Fully deductible
Foreign tax credits	Tougher regime; separate baskets for different types of foreign income	"Averaging" of foreign source income allowed
Research & Development	Credit renewed for 3 years	25% credit on incremental spending
Bad debt reserves	Tight restrictions on deductibility for banks with assets above $500m	No restrictions on deductibility

Note: New depreciation rules effective from 31.12.86, rate reductions from 1.7.87. Investment tax credit is repealed effective 31.12.85.

Continued from page 6

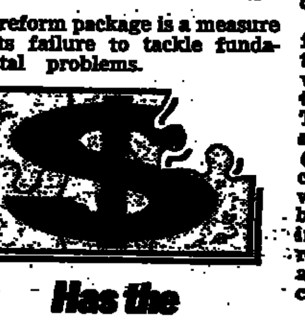
an attempt to ensure that all taxpayers—corporate as well as individual—paid at least some taxes. They were calculated on a different basis from ordinary taxes and were designed to catch taxpayers who had made excessive use of the regular deductions and concessions. Now, as Deloitte points out, they are being elevated to "a central position in the tax system."

The elevation occurs because of a dramatic narrowing of the gap between the ordinary and minimum tax rates and because the definition of the base for minimum tax purposes is much more rigorous. For many individuals and companies the minimum tax will in future become their *regular* tax.

Mr Larry Dildine, formerly a senior official in the US Treasury and now with Price Waterhouse in Washington, argues that the minimum tax "represents a massive accounting and compliance problem" both for accountants and for the Internal Revenue Service. "It applies to everyone, even those little companies that don't publish statements." He suggests that, by this time next year when thousands of tiny firms are grappling with its complexities, there will be a backlash against it.

Companies will be required to pay whichever is higher—their regular tax liabilities or their minimum tax liabilities. All will therefore have to perform two quite different sets of calculations. Indeed, they will have to calculate *three* measures of income, since the earnings which are reported to shareholders are distinct from either definition of taxable income.

The elevation of minimum taxes is more than a little ironic. In 1984, in its original tax reform blueprint, the US Treasury argued that "minimum taxes reflect an attempt to maintain the equity and neutrality of a tax system that is riddled with special preferences." The implication was that if the system were properly overhauled the need for additional minimum taxes would vanish. Their strengthening under the Reagan reform package is a measure of its failure to tackle fundamental problems.



Has the opportunity been seized?

Perhaps the crucial question is: to what extent does the new legislation represent a decisive "breakthrough" in tax policy? Have the special interest groups been permanently vanquished?

Ms Gina Despres, counsel to Mr Bill Bradley, the Democrat senator who paved the way for tax reform with a radical bill as early as 1982, believes that the "architecture of tax law has been fundamentally altered." She sees tax reform as a victory of the general interest over special interests, which now bear the burden of justifying particular concessions. Moreover, tight revenue constraints will militate against the re-opening of loopholes.

Other observers are less sanguine. While conceding that the act does not represent "business as usual," they are cautious about its long-run significance.

Mr Dildine at Price Waterhouse, for example, says that "public opinion had very little to do with the bill." He denies that there was any groundswell of support for tax reform, arguing that what people wanted (and got) was tax cuts. Far from reflecting some grand concept of fairness or equity, the act might be described as the "ultimate victory for special interests." The interests in question were those of the well-off who paid a lot of taxes: they simply ganged up on the well-off who used shelters. In the process, tidbits were thrown to the poor.

Prof Lindsey at Harvard expresses a different sort of scepticism. "There is bound to be erosion over time," he says, because of the nature of the US political system. "Our problem is that roughly half the population funds the Government and the other half receives benefits." One political party predominently represents taxpayers and the other benefit recipients. They are bound to be in perpetual conflict.

This summer, the Right accepted the closure of loopholes as the price for lower marginal rates while the Left accepted lower rates as the price for closing loopholes. The danger is that neither is fully committed to the new tax structure. Mr Dan Rostenkowski, the leading Democrat tax reformer, has already talked of the need for higher rates. Some Republicans are talking about the need to restore the investment tax credit and, if necessary, raise revenue through a value-added tax.

The new legislation will also have to withstand a good deal of technical criticism from accountants and economists.

The former are worried by its complexity and by the fact that some provisions have severe retroactive effects: taxpayers who acted in good faith under old laws now face heavy penalties.

The latter point out that the reforms are much less radical than the lower marginal rates suggest. The Government has not found a coherent new base for taxation. It is not attempting to tax either real economic income (the US Treasury's original choice) or "consumed income" (the choice of many academics). As a result, the new tax structure is extremely vulnerable to a pick-up of inflation.

Nor is the base-broadening either all that extensive or that equitable. Over five years the closure of tax shelters will raise only about $23bn, a marginal sum set against America's fiscal arithmetic. Real estate has been hammered but timber's concessions left intact. Why?

The legislators have also shrunk from seriously encroaching on the big tax deductions—for example, mortgage interest on a principal residence, company pension schemes, medical plans and other fringe benefits, and deductions for state and local income taxes. The items regarded as sensitive in Europe have not even been under discussion in the US.

At the same time, the US has failed to realise that a thorough-going tax reform would have at least to discuss the role of social security taxes. These raise almost as much revenue as income tax proper (see chart below) but are a crude and regressive levy. It would also have to look at the balance between direct and indirect taxation: America relies much less than almost any other industrial nation on consumption taxes.

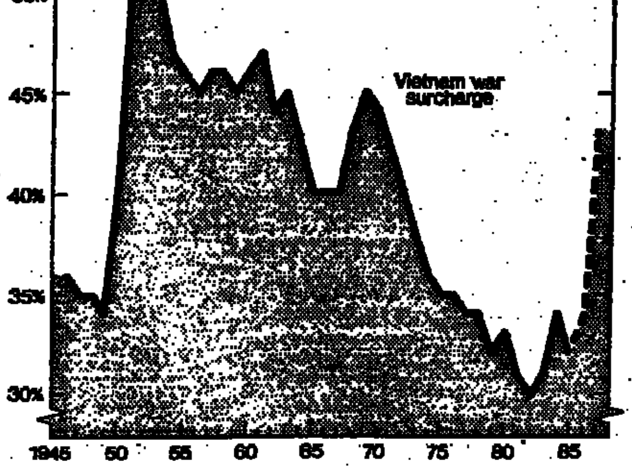
So far as macro-economics is concerned, as Prof James Tobin of Yale has argued: "History will not treat kindly the spectacle of the 1986 tax reform. The President and Congress have spent all their energies on a measure that is, at best, revenue neutral at a time when the obvious fiscal priority is for additional revenue."

Even in the short run, the timing of the reforms may prove particularly unfortunate. Capital spending is already falling in real terms. As Mr Barry Bosworth, a senior fellow at Brookings, remarks, "even if tax reform does not *cause* economic problems, it is likely to be blamed for them." If investment slumps next year, people will inevitably blame the repeal of the ITC this year.

More fundamentally, argues Mr Bosworth, tax reform has been framed almost entirely in a domestic context: it has failed to address the 1980s phenomenon of global capital mobility. Given this mobility it is better to tax US residents as owners of capital (wherever it is located) than industrial investment directly, which can shift offshore. Such reasoning argues for higher personal and lower business taxes rather than the Reagan mix.

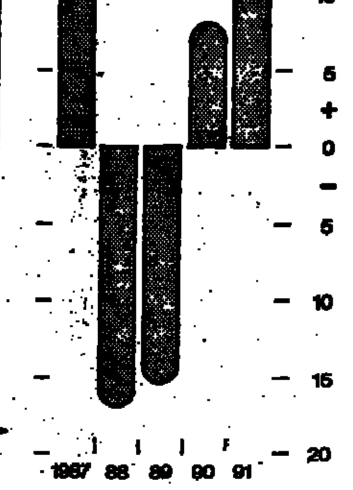
Pushed for an overall assessment of the US experiment, however, it is hard to improve on the words of Mr Bob Giordano of Goldman Sachs. From his Wall Street eyrie, he remarks: "I feel mildly positive about the tax act. Positive at all because I believe mostly in the free market as an allocator of resources. Mild because I think the income distribution should be a little flatter. Taxes should redistribute income."

HOW CORPORATE TAXES HAVE FALLEN



Source: Salomon Brothers

REVENUE CHANGES



Honours even in political stakes

By Stewart Fleming in Washington

Contenders in the tax battle: Senator Packwood, Richard Dar man of the Treasury, Rep Rostenkowski and Senator Bradley

WHEN Walter Mondale, Democratic Presidential candidate, called in 1984 for a tax increase to tackle the budget deficit, White House political officials say they could scarcely believe their ears. Indeed some hWite House aides warned that there might be more to Mr Mondale's announcement than met the eye and said the President's campaign strategists to be careful in trying to exploit the move.

But, in retrospect, Mr Mondale's platform is generally regarded as a spectacular blunder and one he could easily have avoided. Had he listened to Senator Bill Bradley he could, instead, have put his party's label on the issue of tax reform. Instead it was the Republican Ronald Reagan who stole the issue.

Yet, as political analysts pick through the entrails of the reforms it is generally agreed that as a political issue the subject has done little to enhance the standing of either party. Even the President, as he stumps the country on behalf of Republican candidates in next months Congressional elections, is making only passing reference to a tax bill which he once presented as his top domestic political priority.

The shift of perceptions is quite significant. At one stage Republican strategists thought that a major tax bill which not only reduced thte tax burden on most Americans but took 6m poor people off the tax rolls might have the capacity to cement the realignment of the political parties which has long been the dream of Republican party strategists. Millions of blue-collar workers who voted for Reagan but claimed to be Democrats might begin to identify themselves as Republicans.

Polls, however, indicate that most American doubt if they have much to gain directly from the new tax bill. The administration hopes that Americans, when they have experienced the new tax code for a number of years, will feel that the new system is fairer.

If tax reform is not a certain vote winner for the republicans, there is no doubt that for a number of individual politicians, the legislation has offered a chance

Representative Dan Rostenkowksi, chairman of the House Ways and Means Committee, probably had most at stake on the tax reform issue. He was widely credited with the disastrous Democratic response to President Reagan's 1981 tax cutting bonanza. As a result the Ways and Means Committee itself, once one of the powerhouses of the Congress because of its constitutional role as the originator of revenue-raising legislation, was in danger of losing influence.

A product of Mayor Richard Daley's Chicago political machine, Mr Rostenkowski faced a bleak political future if he dropped the ball for the Democrats again. He did not in fact handle the legislation, and a memorable television appearance on its behilf, so well in partisan terms that he almost manoeuvred the Republicans in the House into voting against their own President.

In the Senate too, Republican strategists nearly blundered. Senator Bob Packwood, the Oregon Republican who had succeeded the legendary Senators Russell ong and Robert Dole as chairman of the Finance Committee — the Senate's most powerful committee — was lukewarm about tax reform from the start. He even found himself challenged openly for trying in committee to ramrod through special tax breaks for timber interests in his home state.

But just when the Bill was collapsing under the weight of special interest tax breaks, which had undermined its claims to be tax reform at all, Senator Packwood turned to the Democratic Senator Bill Bradley for support.

Mr Bradley is widely seen as the architect of tax reform in the form it has now taken. As he tells it, his interest was stirred when he was a highly successful professional basketball player and tax lawyers proposed all sorts of tax avoidance schemes to make him even richer.

Senator Bradley decided to pay his full whack, and when this former Rhodes Scholar at Oxford was elected to the Senate he drafted the tax reform blueprint which became the basis for the political debate in Washington. It was only when Packwood turned to Bradley that they and a handful of supporters were able to rewrite the Senate bill in a way that generated unstoppable momentum in the Senate.

For Senator Bradley the political spin-off may be more positive. At 43 he is widely regarded as a politician who could legitimately aspire to the Presidency.

Tax reform might well have languished in the Congressional hopper once again had President Reagan not decided to push the issue — not least as a proposal which would divert attention from the budget deficit. It might still have languished if Treasury Secretary James Baker and his deputy, Richard Darman — as a team the most skilled political operators in Washington — had not replaced Mr Donald Regan as the Administration's chief negotiators on Capitol Hill.

Washington is already wondering, however, whether the tax reform triumph is as clear-cut as it seems. President Reagan has insisted that tax reform should not be muddled up with the issue of the budget deficit and be allowed to become a tax increase as well. But the deficit is still there.

Mr Steve Smith, a Brookings Institution political scientist who has followed the tax debate closely, asks whether the next stage in the debate may find the Republicans forced to propose a tax increase themselves, something which might radically change the political calculus of tax reform from where it stands today.

A puzzle for the financial market

By Anatole Kaletsky in New York

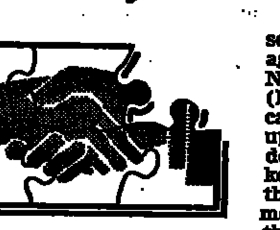
EVERY BROKERAGE house in Wall Street has been devoting hundreds of man-hours to identifying the tax reform winners and losers in the financial markets. Despite this, or perhaps because of it, there is little clarity on the issue and less agreement.

At first sight it might seem clear that tax reform would favour bonds over equities. The burden of tax is being shifted from the personal to the corporate sector, while marginal taxes on income are being cut and capital gains tax is rising sharply. In themselves these changes should create a clear preference among individuals and tax-paying institutions for high-yielding investment such as bonds, preferred stocks and utility shares (which are regarded as close cousins to fixed-interest investments).

However, the general bias towards high-yielding investments could easily be overwhelmed not only by shifts in corporate profitability and interest levels but also by reallocations of funds by the various groups of institutions which are divergently affected by the new tax laws.

Among the institutions whose strategies will be significantly affected by the tax bill are the commercial banks, the thrift institutions and the property/casualty insurance companies. All three of these groups will be increasingly attracted to equities and preferred stocks as a result of an 80 per cent exclusion for received dividends which corporate investors will continue to enjoy after their interest income becomes more highly taxed under the new regime. This factor is expected partially to counterbalance the declining attractiveness of equities to personal investors. It explains why preferred stocks are generally regarded as the investment which will benefit most clearly from the tax bill.

Within the multi-layered US fixed-interest markets, more



complex shifts of institutional funds are expected.

For commercial banks, there are two mutually reinforcing reforms. A tightening of tax deducctivility for loan loss provisions will significantly raise tax liabilities at the same time as banks lose the ability to deduct the interest they pay on leveraged purchases of tax-exempt municipal bonds. These have been a favourite investment vehicle for commercial banks, accounting for some 40 per cent of the banks' total bond portfolios, according to Salomon Brothers.

Thrift institutions will lose a similar privilege related to holdings of mortgage-backed securities which are issued by agencies such as the Federal National Mortgage Association (Fannie Mae). At present thrifts can deduct from taxable income up to 40 per cent of their bad debt reserves, provided they keep at least 82 per cent of their assets in mortgages and mortgage-backed securiies. With this preference radically scaled back in the tax bill, the thrifts are likely to move into higher-yielding bonds.

To complicate the issue, however, a countervailing fiscal pressure will bear on property/casualty insurers—a third great institutional force in the bond markets. Because the insurers' use of part losses to offset current investment income will be restricted, they will seek more tax-exempt income in preference to the taxable bonds being unloaded by the thrifts and banks.

Further demand for tax-exempts is likely to come from the personal sector. Despite the cut in their tax rates, wealthy individual investors are expected to buy tax-exempt bonds in growing numbers as they find that their marginal tax rates, including state taxes, remain well above the 30 per cent mark and that such bonds are the only tax-efficient investment vehicles available.

Life insurance and pension funds, which are the largest group of investors in both the equity and the bond markets, will not be much affected by the tax bill directly. But even their portfolios will naturally respond to shifts in relative returns created by the actions of other investors.

Putting all these factors together, only one firm conclusion can be drawn about the impact of tax reform on the financial markets. The reformers are still a long way from their goal of creating a "level playing field" in which investment decisions are motivated by the economic returns on assets and not by tax considerations.

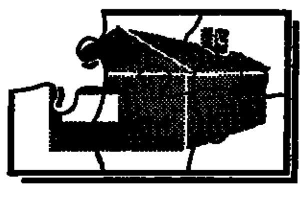
Hard knock for construction industry

THE IMPACT of the tax bill on the gigantic US real estate business is going to be unambiguous, pervasive and painful. Just how painful tax reforms turns out to be for the economically-vital construction industry could well determine whether the US economy continues to prosper or falls back into recession.

To understand the critical interaction between taxes, real estate and generalised US economic growth, look back to the dark days of the 1981 recession. Before President Reagan embarked on one of history's most spectacular experiments with Keynesian reflation, there was a powerful clamour among the opposition politicians in Washington for public works programmes to bring down unemployment. The President's apparent response was limited to a minor highway construction bill.

In reality, however, the Federal Government has financed a make-work construction programme as lavish as any attempted by the Roosevelt Administration in the 1930s. As Mr David Hale of Kemper Financial Services has pointed out, "commercial real estate construction and the US tax shelter industry during 1985 and 1986 inadvertently became the Reagan equivalent of the Depression era Works Progress Administration."

The "inadvertent public works programme" resulted largely from the depreciation provisions of the 1981 tax bill. These enabled large tax losses to be generated on property investments and offset against profits from other economic activities. The notional losses could later be recouped as favourably-taxed capital gains



when a property was sold at a profit—to a new owner who could depreciate it all over again from its purchase price.

The result of these fiscal favours was to turn the construction industry into the biggest motive force of the US economy from 1982 onwards, to boost construction employment by over a million jobs and to leave most US cities with the biggest glut of office and retail property in history.

With the new tax reform, the retrenchment which was becoming inevitable already could all too easily become a crash. The financial underpinnings are being knocked away quite deliberately from the commercial real estate industry, which has been seen by Congress as reaping far too rich rewards

In addition to tightening depreciation schedules, the new law explicitly forbids losses from "passive" investments being offset against any other form of income.

Given the oberbuilding which already exists, the effects on construction could be spectacular. Salomon Brothers estimates that retail construction will fall by 25 per cent, office construction by more than 50 per cent and hotel construction by 55 per cent between 1986 and 1987.

The switch from a growing construction sector to a declining one could reduce GNP growth directly by around 0.8 percentage points. Taking multiplier effects into account, the ultimate economic impact could be a great deal worse, in the absence of countervailing macro-economic benefits or policy measures.

The prospects could deteriorate even further, since much of next year's building will entail completion of projects already begun.

There is only one consolation for very-long-term investors — the decline in new building will eventually lead to higher rents. In the end, returns on commercial real estate should move towards an equilibrium which equalises risk-adjusted after-tax returns on all forms of investment. But the road to equilibrium could prove both costly and economically painful.

A. K.

Sighs of relief expected from non-US companies

WHEN THE final shape of U.S. tax reform became clear, there were sighs of relief in foreign embassies. Intensive lobbying, in which Britain played a prominent role, and warnings from Mr James Baker, the U.S. Treasury Secretary, persuaded legislators on Capitol Hill to abandon controversial plans which had threatened to ride roughshod over existing international obligations.

As a result, counties which, like the UK, have bilateral tax treaties with the US, are unlikely to suffer much directly from America's tax upheaval. At one stage in the run-up to the final legislation things looked very different.

Lloyd's of London might have suffered from the clampdown on the use of "passive losses," the UK insurance industry from a mooted excise tax on re-insurance premiums and the London interbank market from taxes on the US branches of foreign banks. There was even a fear that such hallowed institutions as the Bank of England and the National Coal Board might have fallen victim to levies on foreign "quasi-governmental bodies."

In the event, British companies seem likely to be directly affected in only two ways—by tighter rules on transfer prices for imports to the US (they will not be able to tell US subsidiaries that goods are worth more than the value declared for customs purposes) and by the closing of the so-called "Delaware link" tax loophole.

The loophole resulted from different definitions of residence in the US and the UK. Companies enjoying "dual residence" were able to deduct expenses twice on income taxed only once. Under the new US law, if expenses are deducted in the UK, they will not also be deductable in the US. The British tax authorities made an abortive attempt to close the loophole last year.

US tax reform does, of course, have general implications for all companies with US operations. The repeal of the investment tax credit (ITC) raises the US cost of capital and gives multinationals (foreign or US-owned) an incentive to shift plant out of the US. At the same time, a corporate tax rate that is lower than almost anywhere else will encourage them to declare as much income as possible in the US. The combination looks like a charter for tax avoidance schemes.

Legislators on Capitol Hill are well aware of the problems: US companies will face significantly tougher rules on their international transactions. For example, credits against foreign taxes will be less available: companies will no longer be able to "average" their high-taxed and low-taxed foreign income so as to maximise their overall credit against taxes paid abroad. Ironically, this means that US companies will try much harder to reduce the foreign taxes they pay, which may present compliance problems for overseas tax authorities.

The real imponderable is the speed with which other governments will respond to the US tax changes. Over time the fiscal régimes of the industrial countries tend to keep roughly in step. Canada is already working on its own tax reform package.

Michael Prowse

Airbus says flexibility won contract with Northwest

BY PAUL BETTS IN PARIS

AIRBUS INDUSTRIE yesterday attributed its success in winning a potential $3.2bn (£2.2bn) order from Northwest Airlines in the US to the flexibility of its contract.

The company said the financing details for the first 10 airliners of an order which could reach 100 aircraft, has not been settled. It was not yet decided whether Northwest would buy the 150-seat twin-jets directly from the European consortium or lease them, as is increasingly the case in the airline business, from a third party.

The company acknowledged that the order could not have come at a better time, both because of its strategic importance in the difficult US market, dominated as it is by US-made equipment, and because airbus sales nosedived during the first half of this year.

The latest American order, Airbus said yesterday, had been under negotiations for the past 12 months.

The company's sales problems had increasingly exposed Airbus to the competition from the burgeoning orders and profits of Boeing, the world's biggest airliner manufacturer, as well as from McDonnel-Douglas.

Until the Northwest order, Airbus had chalked up sales of 63 aircraft during the first half of this year, including 44 A-320s, representing a decline of 19 per cent compared with 78 sales, including 31 A-320s, in the first half of last year.

The Northwest order has now changed the picture for Airbus bringing total firm orders for the A-320 to 234 airliners with an additional 133 options. Moreover, the Northwest order is alos expected to give a shot in arm to the consortium's efforts to gain the financial backing to launch its next generation of airliners including the A-330 high density, twin-engined medium range jet and the A-340 long-range four-engined airliner.

The Northwest order involves the acquisition by the American carrier of 10 Airbus A-320s for delivery in 1990-91. Northwest—the fourth-largest US passenger airline carrier, intends to buy up to a further 90 A320s for delivery by 1995.

The order is the second big US deal for Airbus in the past 18 months and follows the Pan American World Airways order for 28 A-310s and A-320s in May 1985. For several years, Airbus has sought to penetrate the US market.

After an initial order from Eastern, Airbus has faced fierce competition from the US aircraft makers which have sought to block the consortium's sales in the US. The Pan Am order last year thus marked a watershed and the latest Northwest order is expected to consolidate Airbus's position in the key US airliner market.

The Northwest order is expected to lead to another battle over the choice of engine.

Northwest has the choice of the CFM-56 Franco-American engine built by Snecma of France and General Electric and the other is the V-2500 built by an international consortium including Pratt and Whitney, Rolls-Royce, MTU of West Germany, Japanese Aero Engines and Fiat.

The two rival engines have about an equal share of the A320s so far ordered, but it is clear that the engine chosen by Northwest will take a significant lead over its competitor. However, it seems, according to air industry source, that the V-25000 has the advantage over the CFM-56 to win the Northwest orders.

El Al in £1bn re-equipment plan

BY ANDREW WHITLEY IN TEL AVIV

EL AL, the Israeli national airline in the hands of the receiver, has announced a $1.5bn (£1bn) re-equipment programme for the next 15 years.

The debt-laden carrier said yesterday that, in its first stage, it has taken firm options to purchase two Boeing 757-200 aircraft, equipped with Rolls-Royce engines, at a cost of $75m, including spares and maintenance. The 191-seat aircraft will be delivered in November and December 1987.

Final contracts are expected to be signed within the next few weeks once the financing arrangements have been completed, El Al said.

The Israeli airline's decision to opt for Rolls-Royce at the start of this re-equipment programme represents an important breakthrough by the British aerospace company into a market previously monopolised by the Americans.

The officials said the decision to buy British had been made on the grounds of the engine's reliability.

The value of the contracts to Rolls-Royce was put yesterday at £26m. Just as significant is the fact that the last Rolls-Royce sale to the Israeli airline, whose all-Boeing fleet of passenger aircraft is at present powered entirely by Pratt and Whitney engines, was in 1963.

The Israeli Government has long stated its intention to sell the airline to the private sector, once it was out of receivership.

Community in imports deal with Hong Kong

By Quentin Peel in Brussels

TOUGH NEGOTIATIONS for a new bilateral textile trade deal between Hong Kong and the EEC have ended in agreement, allowing marginal increases in Community imports from its largest Far Eastern supplier.

Although the percentage increases in quotas for sensitive products like T-shirts, shirts, and trousers are small, the deal is regarded as significantly more generous than that negotiated last month with South Korea—in recognition of Hong Kong's own open market.

The intensity of the lengthy negotiations reflects Hong Kong's importance as the largest supplier by value of textiles to the Community, totalling more than Ecu2bn (£1.38bn) in 1985. In volume terms, Turkey is the largest supplier, although by value its sales were worth only Ecu 1bn last year.

Mr Hamish Macleod, Hong Kong's Trade Director, said the talks had been "more difficult than most had expected, given the EEC was committed to moving in a less restrictive direction."

He said the British colony had gained improvements in quotas—which fall within the general framework of the Multifibre Arrangement (MFA)—for all categories of products regarded as sensitive by the EEC.

Agreement also to allow more "inter-regional transfer" of quotas from one member state to another is also likely to allow for some increase in exports.

A Commission official said that percentage increases for imports in eight sensitive categories were less than 1 per cent, averaging 0.5 per cent overall. Those categories also include cotton and synthetic thread, cotton cloth, blouses and pullovers, and account for about half Hong Kong's sales in the EEC.

Further talks on Nigeria's foreign debt

By Christian Tyler and Michael Holman

NIGERIAN officials are due to meet a steering committee representing commercial banks for a further round of talks in London next week on the rescheduling of the country's $7bn (£4.8bn) medium- and long-term commercial bank debts.

Repayments of principal have been frozen since April, but the banks have been awaiting the outcome of talks between Nigeria and the International Monetary Fund before any agreement on rescheduling of the debt can take place.

The 11-member steering committee, co-chaired by Barclays Bank, Banque Nationale de Paris and Citibank, are due to meet in New York today to review recent events. These include Nigeria's devaluation in effect of the Naira last week, and the government's signing of a letter of intent to the IMF which would theoretically allow it to draw SDR 650m.

Meanwhile news that Nigeria is unable to meet its commitment on promissory notes has been greeted coolly by most creditors. According to the bank representing about 150 creditor companies, they are likely to accept that there is little they can do in the short term about the technical default.

Mr Innis Meek of Morgan Grenfell, the London merchant bank, said from Tokyo yesterday: "It doesn't come as a shock because the writing has been on the wall since the beginning of the year."

The creditor companies are mainly concerned to have their debts recognised, Mr Meek said. So far less than a quarter of the estimated $4bn of trade debts that accumulated up to the end of 1983 had been covered by promissory notes. A further $2.5bn of trade arrears had accumulated since.

Japan catching up in share of invisibles

By Christian Tyler, Trade Editor

JAPAN is fast catching up with Western economies in its share of world trade in invisibles, according to a survey published yesterday.

Its share increased to nearly 6 per cent, close behind West Germany, in 1984, the latest year for which comparative figures are available.

Total receipts were nearly $35bn (£24bn), compared with France's $53.7bn and Britain's $45.6bn. The US remained by far the biggest earner with nealy $124bn in receipts and more than 20 per cent of the world market.

Japan reduced its deficit on invisibles in 1984 but was still running the fourth-largest deficit in the world. It is heading towards a surplus, however, helped by a big increase in its earnings on foreign investment.

The survey, published by the British Invisible Exports Council, shows that the UK continued to record the second-largest surplus after the US.

World Invisible Trade, BIEC, 37, Mincing Lane, London, EC3.

David Barchard on the emergence of a leading textile producer

Cut of Turkey's cloth suits EEC

ONE OF the most important but relatively unremarked developments in world textiles in the last decade has been the emergence of Turkey as one of the world's major textile producers, and in particular as the leading supplier of textiles to the EEC.

In 1985 Turkey led the Community's imports league for the third year running, selling 198,000 tonnes and easily ahead of Hong Kong (its nearest rival with 167,000 tonnes), although in value terms Hong Kong was number one with Switzerland, and Austria, and Turkey following behind.

Turkey's dominance of the EEC's textile trade looks likely to continue. For a start it is the only country which the Community has given a growth factor for its exports. Under a recent agreement, most Turkish commodities have been given growth factors of between 3.5 and 6.5 per cent over the next few years.

The thinking in Brussels seems to be that a a result of the trade battles waged with Turkey in the 1970s and 1980s, the most difficult aspect of the Community's reorganisation of its own textiles industries—Portugal, another major supplier is now an EEC member—is now more or less finished. Textile industries inside the Community now are moving along a different trajectory, shown by the fact that EEC exports to the rest of the world last year grew by a healthy 9.5 per cent.

The implication, at least in some minds, is that although the noise of fierce bargaining may continue for some years, there is considerable complementary interest in the textilets sector between Turkey and Brussels—and this could one day provide an element of economic underpinning to a Turkish application for full membership of the EEC.

Whether or not that be the case, the EEC is a vital market for Turkey. It has shown little ability, or indeed interest in competing with Far Eastern countries for the markets (mostly for men's and boy's garments) in the Middle East. In North America it has begun to export in earnest, but the scale is small. In 1985 Turkey accounted for only 0.76 per cent of the $15.9bn of textile imports.

The Turks would like to push this figure up to a market share of 2 per cent—and urged the US Secretary of State, Mr George Schultz to accept this figure when he visted Istanbul earlier this year.

But American textile producers know a black cloud on the horizon when they see one. Since 1984 they have succeeded in slapping countervailing duties on Turkish textile exports. It is rumoured that the Turks privately link their textiles negotiating position with their key role as a US ally in the Middle East.

The US market thus may eventually prove to be a good one for many Turkish exporters but they were only worth $121.3m last year and the immediate impasse is far from over. It is in the EEC that Turkey earns most of the $1.8bn it gets each year from textile exports.

The EEC provides other opportunities for Turkish textile exporters. They enjoy an enormous advantage over their Asian competitors in terms of proximity, and when a Turkish product such as bedlinen first breaks into the international market, it tends to do so in Europe before moving on to other ones.

A springboard of this sort is enormously useful because, in many ways, Turkey's textiles industry has not settled down into its new role as a major international exporting power.

Only a relatively small proportion of the Turkish textiles sector is competitive internationally—led by the better private sector firms which have emerged over the last 20 years.

In cotton weaving, a recent study by the Boston Consulting Group, found that of the total 48,000 looms in the country, 60 per cent were over 25 years old. Some 16 per cent belonged to the lumbering Sumerbank, a state agency set up in the 1930s which operates far below the standard of the private sector, while a further 27 per cent belonged to modern private sector concerns — and the remaining 26,000 looms belonged to small producers in the unorganised private sector which produces for local markets.

Large amounts of new investment is needed in new looms, especially shuttleless looms, and much machinery will have to be scrapped for the sector to realise its potential.

What is true for cotton weaving is even truer for the textiles as a whole. The strength of the sector has come from cotton spinning, where substantial over-investment exists. There is relatively little production of synthetic fibres, and what there is is often more expensive than imported fibre from Taiwan.

In the wool industry, apart from a few specialities such as merino Turkey has little hope of competing with the top end of the European market.

A shift to "cut and sew" is taking place. Istanbul today has about 12,000 small producers, in some ways operating in a similar fashion to counterparts in Italy. Ready-to-wear already accounts for almost half the country's exports in textiles. But Turkey does not have the retail chains needed to generate orders on the scale which would allow producers to adjust to the fluctuating conditions and insistence on quality in international markets. Networks of producers and firms to market products are not developed as they should be.

Turkish textile producers in the cotton subsector face a further problem. Turkish cotton is currently more expensive than imports from California or India. Some are therefore, switching to imported cotton. But Turkish roller gin cotton performs differently on machines than Indian saw gin cotton. The Government may yet bend to pressure from producers and slap tariffs on imported cotton. So firms are left uncertain about whether or not to adapt machinery to imported cotton or not. Some compromise with an 80-20 per cent mix may be likely.

Despite this Turkey's major textile producers such as Mensucat Santral, Soktas, Akin and others are investing heavily in new machinery and have approached the point when they are little different from their fiercest foreign competitors.

Most no longer believe that cheap labour gives them much of an advantage. Turkish labour costs are higher than in Pakistan, India or much of Asia. Technology in cotton spinning has trimmed the advantage to be gained from cheaper labour to a fraction of what it was a decade ago.

"It takes 150 days to have a design copied from Paris and produced in Taiwan and brought back to the shops in western Europe," says one textile official. "The same figure for Turkey is between three and five days. Almost all the advantages in EEC textiles trade seem to be shifting in Turkey's favour."

Far Eastern countries flood UK clothes market

BY ANTHONY MORETON

A BIG increase in imports of textiles and clothes into the UK in April, May and June led to a deterioration in the country's balance of trade during the first half of the year.

Figures released by the industry show imports rose by 5 per cent to £2.79bn in the first half of the year compared with the same peiod of 1985. Much of the damage was done in the later months of the period.

There was a slight increase in exports in the second quarter even though over the first six months of the year the total actually dropped by 2 per cent compared with 1985.

The adverse trade balance in textiles and clothes in the first half of this year amounted to £1.3bn, almost £300m higher than in 1985.

The change in imports was brought about by a flood of clothes entering the country, largely from Far Eastern counties following the fall in the US dollar, in which most contracts for goods from the Far East are priced. The amount of clothing entering was a quarter higher by volume in April, May and June.

Changes in the value of sterling have had important consequences for both selling to, and buying from, abroad and the industry warns that "it is extremely important for the textile and clothing industries that government policies should aim at stability of sterling against other European currencies."

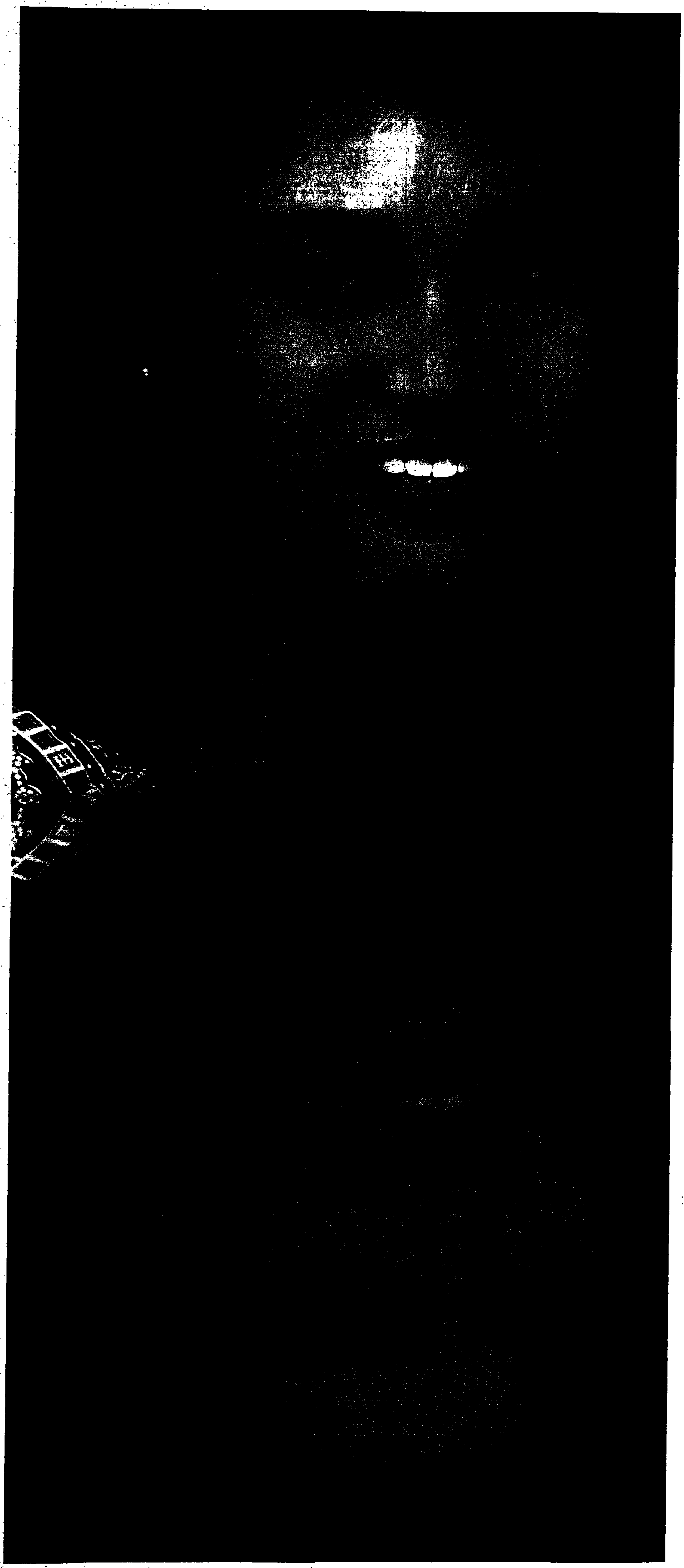
Membership of the European Monetary System's snake "could play a valuable role in this," it suggests.

Compared with the end of June sterling at the middle of September was 3-4 per cent down on a range of Far Eastern countries and between 8 per cent and 10 per cent down on the major Euopean currencies. This followed rises in the year to July 1 against dollar-dominated Far Eastern countries and steep falls against the Europeans.

Figures for the industry internally show that there has been some growth in consumer spending. The level of stocks in the shops has gone up a little and order books in the factories are shorter than a year ago.

Another 5,000 jobs were lost in the second quarter of the year, bringing the number employed in textiles and clothing down to 482,000. Most of the losses were through non-replacement of leavers though there were some redundancies.

Trends in Textile and Clothing Trade: first six months 1986, from British Textile Confederation, 24 Buckingham Gate, London SW1 6LB, £25.



At your service—the low-cost helping hand

BY PETER MARSH

FEEDING cloth into sewing machines and acting as a computer-controlled limb for disabled people are among the jobs lined up for a new type of personal robot, due to be launched next Thursday.

The £5,000 machine, made by London-based Universal Machine Intelligence (UMI), is a series of jointed sections that can lift a 2-kg object with a metal claw and position it to within 1 millimetre.

UMI, which was set up three years ago and operates in a converted lunatic asylum, claims the machine is the first cheap personal robot that can do useful jobs. Robots generally fall into two types — sophisticated machines for factories that cost £50,000 or more and much cheaper computerised arms, costing a few thousand pounds or less, that are used in education or as toys.

Mr Tim Jones, UMI's technical director, says that the new product, called RTX, is a serious effort at developing a machine with a role between these two extremes. UMI, which has received about £1.3m in investment from Newmarket, the venture-capital group, is trying to raise another £2.3m to put the system into mass production.

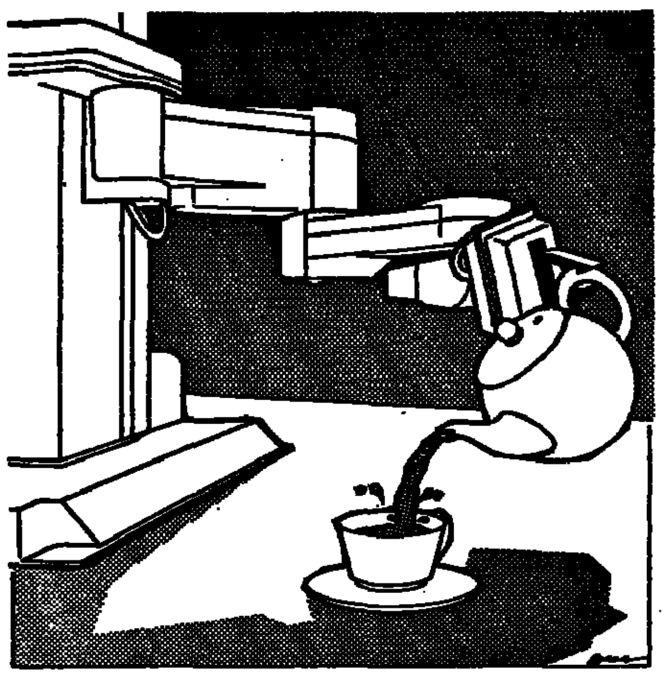
Next year the company, with a staff of 23, plans to sell a mobile version of the RTX, costing less than £10,000. This will be a computer-controlled arm on wheels that will navigate for itself by sensing its surroundings with TV cameras.

Manufacture of the machines — of which UMI has already produced about 50 — is subcontracted to AB Electronic, a UK company which specialises in turning out hardware such as computers in long production runs on behalf of other concerns. AB Electronic is making a batch of 100 machines and Mr Jones hopes to sell a total of 1,000 robots next year, most of them exported.

Among the customers for the RTX is Manchester-based Readson, a textile company which is experimenting with the machine for channelling cloth to machines in garment factories.

Boeing Computer Services of Seattle has bought two robots to help one of its programmers who has lost the use of his limbs. Suitably programmed and activated by spoken commands, the device can do jobs such as turning over the pages of books or inserting floppy discs into computer equipment.

Mars Electronics of Slough is one of several electronics concerns examining application of the machines for inserting components onto boards or putting electrical devices into testing machines. UMI argues that robots could have a key role in the electronics industry. But the hardware from the conventional industrial robot industry is too expensive for many potential customers.



UMI expects to sell many of its robots in the US, the home of a fledgling industry in personal robots. Companies such as Heath, Microrobot and General Robotics sell such machines, which have been mainly used by hobbyists or in schools and colleges. The industry has also set up its own trade body, the National Service Robot Association, based in Ann Arbor, Michigan.

Anglo-Swedish deal brings growth hormone to market

BY DAVID FISHLOCK, SCIENCE EDITOR

AN ANGLO-SWEDISH collaboration involving four organisations has brought a genetically-engineered version of human growth hormone (HGH) into production in Britain. The Centre for Applied Microbiology and Research (CAMR) at Porton, near Salisbury, is making as much of the hormone in a single 400-litre fermentation—taking 12 hours—as can be extracted from the pituitary glands of 20,000 human cadavers.

CAMR supplies the HGH in partly purified form to Kabi-Vitrum in Sweden, which completes the processing and markets it under the name of Somatonorm. The other two organisations involved are Pharmacia, the Swedish biotechnology group, which has shown CAMR how to purify its product; and Porton International, which as CAMR's commercial partner, has put up the cash to bring HGH to the market.

It was in the late-1970s when Kabi-Vitrum invited a fledgling Californian biotechnology firm called Genentech to clone HGH, as a bio-synthetic alternative to its pituitary extract. Even then problems were looming for the natural substance, both in securing sufficient supply and in meeting increasing demands for purity. Under its research contract, Genentech retained the US market, for which it has since developed its own production route, but left the rest of the world to Kabi-Vitrum.

In 1981 Kabi-Vitrum commissioned CAMR to develop a production process, under the direction of Prof Tony Atkinson, director of CAMR's microbial research laboratory.

Early in 1985 CAMR signed two agreements in which Porton International, a new biotechnology company backed by leading City institutions, became what CAMR's director, Dr Peter Sutton, calls its commercial arm. The agreements give the Porton first refusal in marketing new CAMR healthcare products, in return for which the company has undertaken to bring much-needed new investment to an ageing bio-manufacturing plant originally built by Britain's Ministry of Defence.

Porton International put up the £100,000 needed for a crucial new part of the HGH process. This is a liquid chromatographic column (a device for separating hormones from the dense soup of cell debris and unwanted intracellular proteins that leaves the fermenter).

The ion-exchange separation gel used in this column was designed by Pharmacia, specialists in chromatographic fractionation. The company worked to a specification defined by CAMR, stipulating both the electrical characteristics of HGH and the properties needed to resist vigorous washing in the interests of good hygiene.

The column is contained in a "golden egg" of heat-treated stainless steel, designed for high flow rates. An ultra-violet monitor, also designed by Pharmacia, determines when the column shall be tapped, signalling the presence of the required hormone but rejecting a variant which is less efficient, and shutting it down when the tailings are too diluted. The significance of reliable plant and controls becomes clear when it is realised that a column can contain material worth as much as £40,000.

This material is being supplied by Porton International, as partially purified HGH, for Kabi-Vitrum to apply two further stages of purification before it is ready for use. According to the *British Medical Journal*, the cost of treating a child with Somatonorm this year is over £4,000.

Currently about 900 undersized children a year in Britain are being treated with HGH. Until last year it was pituitary HGH, but the supply was limited, which meant that most children were unable to be treated for long enough to realise their full growth potential.

Last year a more serious problem came to light, when several deaths were traced to a slow virus infecting pituitary HGH with which the victims had been treated in the 1960s and 1970s. The only source of HGH permitted in Britain at present is the genetically engineered hormone from Genentech or Kabi-Vitrum.

There has never been enough HGH to fully explore other medical indications such as its ability to promote rapid healing of fractures or wounds. Dr Sutton, a medical scientist, is convinced the significance of HGH goes far beyond the restoration of natural deficiencies. As he sees it, HGH made by recombinant DNA methods is a very exciting material, comparable with cortisone in the impact it may have on medical practices.

For CAMR—with a brief from the Government to secure commercial returns to help support a research programme funded by the Department of Health's Public Health Laboratory Service—HGH is an important new source of revenue. When present arrangements are in full production, HGH will be earning around 10 per cent of CAMR's annual income of about £3.5m, estimates Prof Atkinson.

He is confident CAMR's production will exceed the 250 grams a year of pituitary HGH being bought by Britain until it was banned.

Swedes say they can cut cellular radio expenses by 75%

CELLULAR RADIO operating costs could be cut by 75 per cent according to a Swedish company, Comvic International. It has developed a system in which the intelligence needed for setting up calls and switching them between cells as the cars move about is contained in the mobile radiotelephone sets instead of in the big regional computers of the Nordic, US and British systems.

In the present systems, a call for a car goes first to the base station of the cell the car is in, and then by land line to an exchange. From there it is switched either to a vehicle in another (or the same) cell via the local base station, or to a phone in the ordinary fixed telephone network.

WORTH WATCHING

Edited by Geoff Charlish

Comvic says the resulting fixed line costs between base stations and exchanges account for much of cellular's cost and that with its system, the vehicle radio's "brain" controls switching directly between base stations or to fixed phone network exchanges. The cellular exchanges will also usually be smaller.

The system is already in action in Hong Kong and Sweden. Comvic in Sweden is on 810 0217.

WIDEBAND communications by laser between points up to 1km apart and with a clear line of sight are offered by Modular Technology of Bicester, Oxfordshire, UK.

The system, called Interlaser, allows computers in separate buildings to communicate at data rates up to 2.5 megabits (312,500 characters) per second without employing external cable services. It also transmits colour television pictures and audio signals.

Reuters is using the system in Australia, where the newsagency is linking various office buildings in Sydney to a communications centre in the suburbs. The price of a link varies between £2,500 and £5,000.

WOODEN SLEEPERS on the world's railways could be given a new lease of life using a treatment from Bio-Kil Chemicals, a subsidiary of Laport, the UK chemical group.

Although railways are turning more to concrete sleepers, British Rail (BR), for example, still has 8,000 miles of softwood sleepers, the life of which could be extended by five years, saving about £8,000 a mile as maintenance crews work their way along the track.

Bio-Kil's treatment consists of drilling the sleepers and inserting small rods of water-soluble borates which permeate the wood and prevent fungal decay. The presence of early decay can be detected with a new instrument which measures the density of the wood — necessary because decay usually starts inside, the sleepers.

Starting this month, operational trials are planned by BR in five of its railway regions Bio-Kil Chemicals is in Gillingham, Dorset, UK

SYNTHETIC AGGREGATE material called Texsol is being used on motorway embankments in France. Made by spinning a three dimensional web of plastic fibres into soil, it is turned into a material that is coherent enough to be used for embankments in place of concrete.

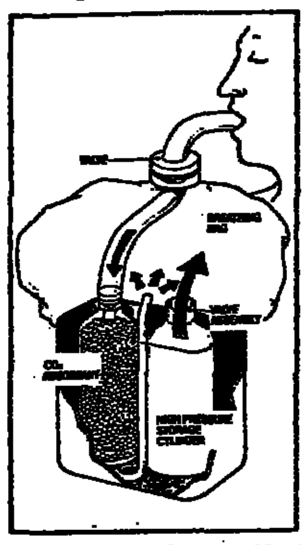
Plants can be grown on the structure, the fibres of which can be polyester or polypropolene which are spun into a mixture of sand and soil by a machine that can pump out 30 tonnes of the material an hour. The first non-experimental applications of the process were on autoroute A7 south of Lyon this summer. Texsol is at Christ de Saclay, BP 62, Orsay, France (telephone 1 6941 8190).

AUSTRALIAN BANKS, Australia & New Zealand, Commonwealth Bank, National Australian and Westpac Banking, are to develop an electronic funds transfer system which can exchange high-value payments at high speed. The control part of the system, called Bits (bank interchange and transfer system) will be developed by Logica, the London-based software systems house.

Safety from a Sodastream cylinder

SODASTREAM CYLINDERS are being used as an emergency source of oxygen in equipment being developed by Draeger Safety Group of Blythe Newcastle, in the UK The cylinders are more widely known for the provision of the bubbles in fizzy drinks, in which application they are filled with compressed carbon dioxide.

The idea is to provide each person at risk with his own oxygen supply, enabling him to escape from a danger area



in the event of an accident, but obviating the need to carry cumbersome breathing apparatus. Sodastream's automated plant in Peterborough, UK, makes cylinders in lightweight form with no welds and thin walls.

LIQUID CRYSTAL technology developed by Japanese company Casio is used in a £4,850 printer offered by a newly-formed company, You-Data of Camberley, Surrey, UK (0276 682663). The printer is compatible with IBM equipment.

Minimum wage pledged – but no incomes policy

BY TOM LYNCH

THERE will be a statutory minimum wage under the next Labour government, but there will be no statutory incomes policy, Mr Roy Hattersley, Treasury spokesman, told the Labour conference at Blackpool yesterday.

The conference overwhelmingly backed the joint Labour Party and Trade Union Congress statement on low pay which firmly commits Labour to a statutory minimum wage. Mr Hattersley said this would be one of the next government's first priorities.

"Without a statutory minimum wage we will never end the scandal of working poverty," he said. Labour had a duty to end the situation where six million workers earned less than the poverty line and 700,000 were below the supplementary benefit level.

Rejecting Conservative arguments that the people should price themselves into jobs, he said: "Low wages are no guarantee of a job. Indeed, it has been the low-paid who have been most likely to become unemployed. We are not losing markets to Germany, America and Japan, because our wage levels are higher than theirs.

"If we fight for world trade by starting a crazy wage-cutting competition to improve our export prospects, it is south-east Asia which will always win. All that would happen is that incompetent managers would have their inefficiency subsidised out of the low pay of their workers."

Mr Hattersley said it was not possible to say what the statutory minimum wage would be. It would be wrong for the Labour Party to make promises it could not fulfil. The trade unions had asked for no precise figures, and neither should the difference.

Mr Hattersley assured delegates: "A statutory minimum wage is not the Trojan horse or a stalking horse for a statutory incomes policy. A statutory incomes policy is not on the agenda of the next Labour government."

However he reminded the conference that money wages – along with prices, profits, exports, investment and jobs – would be discussed in the national economic summit which Labour plans to call immediately after a general election victory.

He said that summit would help create "a real partnership between industry, the trade unions and government." This partnership would give the unions new rights.

Increased welfare spending 'a priority'

By Ivor Owen

POSITIVE commitments to greatly increased spending on the National Health Service and welfare benefits will not be an electoral liability but a "central reason" for Labour being returned to power, Mr Michael Meacher, the social services spokesman, assured the conference.

He said "an immediate priority" for the incoming Labour government would be to increase retirement pensions by £8 a week for married couples and £5 a week for single persons.

Mr Meacher also promised that child benefit would be increased by £3 a week for all children and the introduction of a £12 a week addition to the benefit available for the long-term unemployed.

Mr Meacher told delegates: "We will pay for all that by taking back the £3.5bn of tax concessions handed out by Mrs Thatcher to those with incomes over £500 a week."

He successfully called on the conference to remit for further consideration by the party's national executive committee a composite resolution embodying a demand for the male retirement age to be reduced from 65

Peter Riddell assesses a harmonious conference – and the questions which remain

Unity breaks out over focus on realism

"WE ARE like strawberries and cream, or Yorkshire pudding and gravy," Mr David Blunkett, former mayor of Sheffield, joked yesterday when referring to his partnership with Mr Roy Hattersley, Labour's Treasury spokesman, in producing the social ownership proposals. They are not exactly close friends, despite, or perhaps because of their shared origins in the north of England city.

Nevertheless their ability to say roughly the same things yesterday symbolised the general spirit of unity throughout the conference.

Admittedly there has been some skilful stage management and presentation of which the Tories would have been proud – not least in the careful selection of a succession of prospective parliamentary candidates to come to the rostrum and be given the exposure of appearing on television.

The impression of harmony is, however, not artificial. The bitterness and arguments of so many recent Labour conferences have gone, at least for the moment. The main fringe meetings of the left have been much less well attended than previously. Most striking has been the shift in the attitudes and votes of the constituency party delegates.

Yesterday, for example, the conference approved, with little dissent, three major policy statements on the economy and industry. The call for no compensation on renationalisation was yesterday easily brushed aside on a show of hands. A few years ago there would have

Labour Party in Blackpool

been at least a card vote and probably a major row. The reservations to some motions expressed by the national executive speaker have also generally been accepted without demur.

One Kinnock advisor argues that the major ideological debates of the 1960s and 1970s have blown themselves out. In their place the party activists have accepted the leadership's emphasis on practicality and realism – not promising what you cannot deliver. This has provided a focus around which divergent groups can unite.

In short, Labour has come together again. Mr Kinnock's highly successful conference speech on Tuesday offered the appeal to "moral majority" which is likely to form a major theme of the election campaign by neatly turning the previous Thatcherite interpretation of the term on its head.

Yet, as many MPs privately recognise, there are plenty of unanswered questions which will have to be resolved once the euphoria has disappeared. The nuclear power vote did give the leadership some freedom of manoeuvre over the timing of phasing out, but the direction is unequivocally non-nuclear. This could present problems in many constituencies with nuclear plants.

Similarly, the debate over US attitudes towards Labour's defence

David Blunkett

Roy Hattersley

policy has not yet provided an approach which will stand the pressure of an election campaign.

The question of the UK's role in Nato if US nuclear bases in Britain are closed is not answered simply by referring to keeping open the existing US intelligence and protection facilities. After all, these listening posts are primarily associated with the operation of the Nato nuclear deterrent.

There is the further question here of whether Mr Kinnock's reference to Britain's obligations in retaining these facilities was intended to be reassuring, or a threat to any US reaction to the closure of its nuclear bases.

There are also uncertainties over the US nuclear umbrella, where Mr Kinnock has had to clarify earlier remarks about rejecting US nuclear protection by saying that he would not be asking the US to launch a first strike but recognised the continued existence of US nuclear forces.

Of course, the whole debate could quickly change if there is a Soviet-US arms agreement on cruise missiles and the like, but Mrs Thatcher could turn this to her own advantage.

On economic policy, there remain tensions between Mr Hattersley's emphasis on expenditure restraint and statements during the week promising more money for a wide variety of groups. The qualifications may have been stated, but there remain dangers of raising aspirations too high and thus bringing charges of betrayal.

Yesterday's debate on social security and taxation turned, for example, into a pensioners' rally with tax hardly being mentioned. But there has been considerable behind-the-scenes muttering – and the one public exchange between Mr Blunkett and Mr Hattersley – about the Treasury spokesman's pledge that the tax burden would only have to increase for the highest paid.

Many MPs of all wings of the party, as well as economic specialists advising Labour, believe that the rise in the basic rate of income tax may be necessary to finance Labour's social and economic promises.

The other missing feature from this week's debates was any real discussion of the Government's problems with sterling and interest rates. Mr Hattersley made a passing reference to the pound on Monday. But otherwise there has been nothing.

Yet sterling and the financial markets may be the most serious initial difficulty facing a Labour government. After all, it is exactly 10 years since Mr Denis Healey dramatically strode to the rostrum as Chancellor of the Exchequer after Britain had just applied to the International Monetary Fund for a loan to prop up the pound.

More political control for health service

BY ROBIN PAULEY

THE GOVERNMENT yesterday took full political control of the National Health Service (NHS) by appointing Mr Tony Newton, Health Minister, as the new chairman of the management board.

Sir Roy Griffiths, deputy chairman and managing director of J. Sainsbury and the driving force behind a report in 1983 which resulted in a major shake-up of NHS management, has been appointed deputy chairman.

He will advise on NHS management and will have direct access to Mrs Margaret Thatcher, Prime Minister, in the same way as Lord Rayner, chairman of Marks and Spencer, the stores group, was able to cut through the Whitehall bureaucracy and get directly to Mrs Thatcher during his period as her adviser on waste and efficiency.

Mr Len Peach, former director of personnel at IBM UK, has been named as chief executive. He has been acting chairman of the management board since Mr Victor Paige resigned on June 3 after a series of policy disagreements with Mr Norman Fowler, Social Services Secretary.

The new arrangements provide a more coherent framework for the management of the world's largest employer after the Red Army and the Indian state railways system.

Under the previous arrangements Mr Fowler was chairman of the NHS supervisory board and Mr Paige was chairman of the management board. This inevitably led to conflict because Mr Paige made management decisions that were often unacceptable to Mr Fowler and vice versa.

The NHS spends about 15bn a year, 95 per cent of which is taxpayers money for which parliament, as guardian, holds ministers responsible.

The fact that a minister will now chair each board gives the NHS a new political consistency. As chief executive Mr Peach will have the executive freedom to manage the NHS while reporting to a political chairman.

The changes received a mixed reception last night. The Royal College of Nursing welcomed Mr Newton's appointment saying it felt that the political aspect of the health minister's role should not be separated from the function of the board.

But Ms Ada Maddocks, National Health Service officer of the National Association of Local Government Officers said it was "yet more bad news for the NHS which will be subject to even greater pressure to continue a programme of cuts and privatisation."

Fork-lift truck maker calls in receiver

BY ARTHUR SMITH, MIDLANDS CORRESPONDENT

COVENTRY Climax, the fork-lift truck maker that was once part of British Leyland, called in the receiver yesterday. Some 800 jobs are at risk.

Directors, locked in talks with the receiver from accountants Price Waterhouse, last night were thought to be pressing for a financial reconstruction to allow the company to continue trading.

Coventry Climax, sold in 1981 by BL to a consortium led by Sir Emmanuel Kaye, who also owns Lansing Bagnall, the UK's largest fork-lift truck manufacturer, had been widely regarded as a management turnround success story.

The company, with the introduction of the new "Conquest" range of trucks and new flexible work practices, achieved its first profit for a decade last year.

A cash crisis was precipitated by a fire last week which destroyed more than £1m worth of equipment at the Coventry headquarters.

Mr Ray Lissaman, Coventry district secretary of the engineering union, said the company had reported the fire prevented dispatch of trucks, cut off revenue, and caused the directors to call in the receiver.

Mr Lissaman said the crisis at Coventry Climax, one of the city's best known names, was "a tragedy." The setback would exacerbate the problems of the jobless, particularly among the young unemployed.

Coventry Climax, in common with the rest of the troubled UK industry, has been squeezed by excess fork-lift truck capacity in Europe and low cost imports originating from Japan and the Far East. Problems mounted in the first half of this year with a sharp drop in UK orders.

Newspaper to support the Football League

BY RAYMOND SNODDY

TODAY, the daily newspaper which is struggling for survial after a disastrous launch, has become the latest sponsor of the Football League in England.

The high-technology paper will spend a sizeable chunk of its £7m promotional budget on what will be known as the Today League, after a time as the Canon League.

Today, now controlled by Lonrho, publishers of The Observer, will sponsor the league for two years with an option for a one-year extension in a deal that would be worth more than £4m in cash over the three years.

Both organisations have been suffering from poor support, although Today says its circulation is up by at least 10 per cent since the recent launch of a television promotional campaign.

For the deal Today will get the exclusive right to sell its newspapers in the 96 football grounds. Apart from perimeter fencing advertisements, there will be Today ads in all football programmes and broadcast over the Tannoy systems.

As well as the money, the league will get the benefit of television commercials which will promote both football and the newspaper. Today will also be giving a prize to the club which best promotes football as a family game.

Government bans Libyan airline flights to Britain

BY JOHN HUNT

THE GOVERNMENT is banning all Libyan Arab Airline (LAA) flights between Heathrow (London) and Libya from the end of October because of the evidence given at a recent trial implicating the airline in terrorist activities in Britain.

The UK-Libya air services agreement which permits LAA to make two flights a week, will not be renewed when it expires on October 31.

In the meantime, further security measures will be applied to LAA flights at Heathrow. The decision also means that the airline's Libyan staff in London may have to leave the country when the agreement expires.

The announcement was given a cool reception by British Caledonian (BCal) which had been hoping to resume its flights to Libya but will not now be able to do so.

It had been making two and sometimes three flights a week between Libya and Gatwick (South of London) until it suspended its services in July.

The suspension followed a dispute over two aircraft which it sold to a broker in Hong Kong and which, without the knowledge of BCal turned up in Libya.

BCal had, however, been planning to renew its flights to Libya in November and allowed for this in its budget. The service, which carried many of the large colony of Britain's residents in Libya, was a substantial source of revenue.

In a terse statement last night the airline said: "British Caledonian was not consulted on the matter and in the circumstances it is inappropriate for us to make any comment."

It is understood, however, that the executive of the airline are annoyed at the lack of consultation. Britons wanting to travel between the two countries will now have to use various European airlines and change flights.

The government decision stems from the trial of Dr Rasmi Hafez Awad, who was sentenced to 25 years imprisonment on charges that he had conspired to cause explosions and was a member of the Abu Nidal terrorist group.

He denied the charges but the court was told that a bagful of grenades intended for him was taken through Heathrow by a man in LAA uniform.

Apricot in deal to move up market

By Raymond Snoddy

APRICOT, the Birmingham-based computer manufacturer which has been moving up market with a new range of IBM compatible machines, has signed a distribution deal it hopes will take it in to the heart of the corporate sector.

MBS, the UK's largest independent supplier of microcomputer equipment and services will supply the range of ZEN microcomputer which are IBM-compatible.

Mr Roger Foster, group chief executive of Apricot, believes the deal is an indication of market acceptance of the new Apricot machines. "Their direct sales force of 100 people will probably be the major benefit to Apricot," Mr Foster said.

In the past Apricot, which plunged to a £15m loss last year, has mainly aimed its computers at the small and medium business sector, largely through its own dealers.

In addition to the main MBS deal, Data Distributors, the distribution division of MBS, will serve as a second source of supply for the 300 existing authorised Apricot dealers. Mr Foster hopes that the new distribution deals will give a further boost to Apricot's recovery.

Ulster studies energy link with Britain

BY MAURICE SAMUELSON

AN UNDERWATER electricity cable between Scotland and Northern Ireland similar to the one which spans the Channel between England and France is being considered as one of several options for cutting the price of Ulster's electricity, 90 per cent of which is at present generated by oil.

The Irish Republic's electricity industry is also interested in a similar link with the grid in England and Wales. The Republic is the only member of the EEC which is not "interconnected" with other Community states.

New coal and lignite-burning power stations are the preferred way to cut Ulster's electricity price, which is the highest in the UK. Nevertheless, the Northern Ireland Electricity Service (NIES), is exploring the benefits of linking up with the South of Scotland Electricity Board (SSEB) which receives nearly 60 per cent of its power from nuclear plant.

Preliminary studies suggest that the 40-mile long cables would be laid on the seabed between County Antrim and Ayrshire, thus avoiding the heavy entrenching costs that were incurred in the 2,000MW Anglo-French link.

As in the cross-Channel scheme, the power would be transmitted as direct current. In both countries, specially built converter stations would transform it to and from alternating current for local distribution.

Two private consortia are tabling proposals to build a 450MW station to burn large deposits of lignite, or brown coal, discovered recently on the shores of Lough Neagh.

The Northern Ireland Government will compare their proposals with those already tabled by the NIES, which hopes to keep generation in public hands.

Mr Tony Hadfield, deputy chairman and chief executive of the NIES, said yesterday that by the year 2,000 it was hoped that the service's installed capacity would increase from 2,400MW to 3,000MW, based equally on lignite, coal and oil. This far exceeds present peak demand of about 1,300MW

Besides looking at lignite-fired plant, the NIES is also looking at the expansion of coal-burning at Kilroot power station. Part of the plant, originally designed as a 1,200MW oil-burner, is already being converted to dual firing, with 360MW of capacity. But there is scope to add a further 450MW of coal-fired capacity.

Britain set to win contracts for US early warning system

BY DAVID BUCHAN

BRITAIN would win "substantial" contracts from the US for allowing modernisation of the Ballistic Missile Early Warning System (BMEWS) at Fylingdales in the north of England, defence ministry officials said yesterday.

The £250m modernisation of BMEWS, which would provide seven to eight-minute warning of a strategic missile attack, will replace the distinctive golfball-shaped radars on the north Yorkshire moors with a single pyramid-style structure by the early 1990s.

The US Government will pay for 90 per cent of the modernisation, largely through a contract to Raytheon of the US to provide a new phased array radar.

To date, the only publicly announced contract to UK industry was for a £25m building to house the new radar. But ministry officials said yesterday further offset work for the UK had been agreed with the US, although they declined to specify it.

Their reticence appeared linked to the fact that this "offset" is more an extra rent charge to the US for use of Fylingdales than traditional compensation, because the modernisation is almost wholly US-funded.

Fylingdales is one of the three BMEWS sites – the others are at Clear in Alaska and Thule in Greenland – which feeds into the US strategic command in Colorado information on objects up to 3,000 miles into space.

Its modernisation would not appear to be threatened by any electoral victory of the Labour Party, whose leader, Mr Neil Kinnock has said – despite his dislike of US nuclear bases in the UK – that he would retain such intelligence links with the US.

Barclays Bank chief breaks a family affair

BY DAVID LASCELLES, BANKING CORRESPONDENT

THE APPOINTMENT yesterday of Mr John Quinton as chairman of Barclays Bank is certain to be picked over by the City of London, for signs of shifting power patterns at the UK's second largest clearing (commercial) bank. Unlike the other clearers where the chairmen tend to play an ambassadorial role, the Barclays chairman wields full executive power.

John Quinton: break with tradition

Keeping track of the internal machinations at Barclays has been likened to the art of Kremlinology; it is necessary to have a grasp of the web of dynastic ties and political loyalties in order to get the true picture of what is happening.

The most striking point is that Mr Quinton, who succeeds Sir Timothy Bevan, does not belong to any of the many families which have dominated Barclays for nearly a century, and have, with one exception, provided all its chairmen. This means that the bank's two top jobs will now be non-family: the other being that of chief general manager, a new post created two years ago and held by Mr Peter Leslie, who also worked his way up the organisation.

But does this appointment mark a break with tradition, and the start of a more meritocratic era at 54, Lombard Street, Barclay's solemn stone-clad City headquarters?

Given that Mr Quinton's name was put forward by Sir Timothy and approved by the board, a quarter of whose members are still "family", it certainly represents a conscious decision to put an "outsider" in the top job with all that that implies for the bank's internal politics and external image.

However, there will inevitably be a suspicion that Barclays' well-rooted family traditions do not yield that easily, and that Mr Quinton was chosen as an interim chairman because there is no family candidate who is ready to take over.

The most likely family successor is Mr Andrew Buxton, the bank's vice-chairman. But he is only 46, and it may be premature to put him in a position which he could end up holding for well over a decade.

The other key question is how broad a role Mr Quinton will play. Sir Timothy has always made a point of describing himself as "executive chairman", and the word from within Barclays yesterday was that Mr Quinton will have similar power and responsibilities.

However, Mr Quinton will have to square his position with Mr Leslie, whom Sir Timothy selected for the chief general manager's job in preference to Mr Quinton in 1984. Mr Leslie is described as the "chief operating officer", and has put a firm managerial stamp on Barclays

Mr Quinton, by contrast, who was made deputy chairman after failing to secure the chief general manager's job, has been more concerned with strategic questions, and less with the execution of bank policy.

He was not willing yesterday to talk about his job. However, he is a highly experienced clearing banker, and with his thick-rimmed spectacles and deliberate manner he also looks the part.

Recently, he has been Barclays' most frequent speaker on the great banking and business issues of the day

In August, he delivered a speech to a Cambridge seminar on the future of banking where he looked at the changes Barclays has already undergone, particularly as a result of the Big Bang, and made the striking comment: "It is now probably anachronistic to call Barclays a bank." Instead, it was a financial services conglomerate.

Whether or not he knew at the time where his destiny lay, he said: "Guiding any institution through the next 15 years is going to be a demanding task."

Former Rumasa chief faces $46m claim

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

A $46m claim was made in the High Court in London yesterday against Mr José Maria Ruiz Mateos, former head of the expropriated Spanish conglomerate Rumasa.

It was part of an action in which the state management of Rumasa is trying to get back money it claims was wrongfully transferred by Rumasa banks to companies in England and elsewhere outside Spain.

Rumasa contends that before expropriation in Februar, 1983, the Multinvest Group, including Multinvest (UK), a City of London company, was set up either as an undisclosed subsidiary of Rumasa or by Mr Mateos for his own benefit.

The $46,230,000 claim against Mr Mateos is founded on his alleged breach of fiduciary duty to Rumasa.

Mr Mateos, who is on bail in Spain awaiting trial on criminal charges relating to the pre-expropriation conduct of Rumasa's affairs, has instructed English lawyers to oppose the claim but has put in no evidence.

Mr Colin Brodie, QC, for Rumasa, told Mr Justice Peter Gibson that Mr Mateos had been advised by his Spanish lawyers not to give evidence because he might incriminate himself.

Mr Brodie said that Rumasa had had difficulty tracing the money because of "blatant forgeries" and "fictitious references" in documents relating to loan transactions.

Rumasa alleged that, at Mr Mateos's direction, companies had been set up in Panama, South America, Liechtenstein and England to act as borrowers of money from banks in the Rumasa group.

None of the ostensible borrowers in fact received any money, which had gone to companies owned or controlled by Mr Mateos. The hearing, expected to last several weeks, continues today.

Damon Biotech seeks new deal for plant

BY JAMES BUXTON, SCOTTISH CORRESPONDENT

DAMON BIOTECH, a leading US biotechnology company, is negotiating a new financial package for a plant which it is setting up with UK government aid at Livingston, Scotland, after a decision to redesign the facility.

The changes in the design of the plant are likely to reduce its total investment cost, originally put at £30m, and to lower the number of people it will employ, which was originally stated at up to 300 over the next four years. However, the plant is still scheduled to come on stream next autumn.

The changes in the design of the plant are said to be the result of advances in technology in the field of monoclonal antibodies which the facility is to produce. They follow a shakeup in the top management of Damon Biotech in the US.

Monoclonal antibodies are man-made proteins which are used in the drug industry to combat invading organisms in the human body.

Damon Biotech is discussing a revised financial package for the plant with the Scottish Development Agency (SDA). Yesterday the SDA said that any reduction in either the capital cost of the plant or in the number of people it would employ would lead to a reduction in government assistance for it.

Damon Biotech declined to say yesterday how much the plant would now cost, or how many people it would employ. The decision to locate the plant at Livingston was hailed as a considerable success for Scotland when it was announced in July 1985.

FINANCIAL TIMES SURVEY

Friday October 3 1986

CANADA

BANKING, FINANCE AND INVESTMENT

The impending regulatory changes to sharpen competition will blur still further the divisions between the traditional four pillars of the Canadian financial institutions

The four pillars feel the tremors

A BANG is about to reverberate through Canada's financial services industry. Although not as big as the one soon to be heard in London, it promises to be equally unsettling for what has until recently been one of the world's most stable and well-ordered financial markets.

The Canadian bang will not take place overnight. Instead, a series of regulatory changes scheduled to be implemented over the next six months or so will gradually but unmistakeably alter the way in which financial institutions operate in Canada.

The forthcoming shake-up will further blur the increasingly fuzzy distinction between the traditional "four pillars" of the Canadian financial system, namely, banks, trust and loan companies, securities firms (known in Canada as investment dealers) and insurers.

It will usher in stiffer competition from foreign institutions, introduce new supervisory rules and possibly affect the growing involvement of industrial and commercial conglomerates in the provision of financial services.

While tougher competition and new alliances will inevitably cause some dislocation, hopes are high that the gradual approach which is a hallmark of the Canadian national character will help avoid a bloodbath.

Noting that Canadian financial institutions are preparing more cautiously for the Big Bang than their counterparts in London, Mr Stanley Beck, the chairman of the Ontario Securities Commission, says that "I think there's a chance for a more ordered development here."

On the other hand, fall-out from the new regime is likely to reach far beyond the financial services sector. Any proposals to reshuffle the functions and ownership of financial institutions are guaranteed to spark off a heated debate in a country where concentration of corporate power in general and the size of financial institutions in particular are sensitive political issues.

By BERNARD SIMON, Toronto Correspondent

By strengthening Toronto's position as the undisputed financial centre of Canada, the forthcoming changes will again raise questions about the dominance of eastern Canadian institutions in the financial system and the role of regional banks, securities firms, trust companies and stock exchanges. Any move to adjust regulatory regimes is bound to touch the prickly issue of the division of powers between federal and provincial authorities.

The new rules, which will include greater foreign participation in Canada's financial markets, may also have a bearing on talks underway between Ottawa and Washington on a free trade agreement between the world's two biggest trading partners.

The forthcoming changes have been shaped by an unprecedented period of turmoil in the Canadian financial services industry which, in retrospect, probably began with the dramatic failure of three Ontario trust companies in 1983. Allegations that the trusts' owners abused their positions to finance dubious property transactions raised serious questions about ownership and policing of financial institutions.

Since then, the pace of events in both the Canadian and international financial markets has pushed financial institutions to the limits of the regulatory framework — and sometimes beyond.

A new generation of bankers, stockbrokers and plain entrepreneurs has swept away many of the comfortable traditions and relationships which characterised Toronto's financial establishment. Gordon Capital, Royal Trust, Merrill Lynch Canada, Toronto - Dominion Bank and the Montreal-based Laurentian group are among the pioneers which have looked for loopholes in existing rules, forged fresh alliances and generally put the rest of the financial community on its toes.

The securities industry, long protected against foreign competition, was thrown into a tizz in 1984 by a proposal by Daly Gordon Securities (now Gordon Capital) to use a loophole in Ontario's legislation to form a 50-50 venture with the Bruxelles Lambert group of Belgium. Daly Gordon's proposal led to the review of ownership in the securities industry which is about to culminate in the direct entry of US, Japanese and European Securities traders to Canada, and a relaxation of curbs on ownership of investment dealers by other financial institutions.

The debate on ownership and conflicts of interest has been fuelled by a series of mergers, takeovers and corporate realignments which has given some of Canada's most powerful companies a strong presence in the financial services industry.

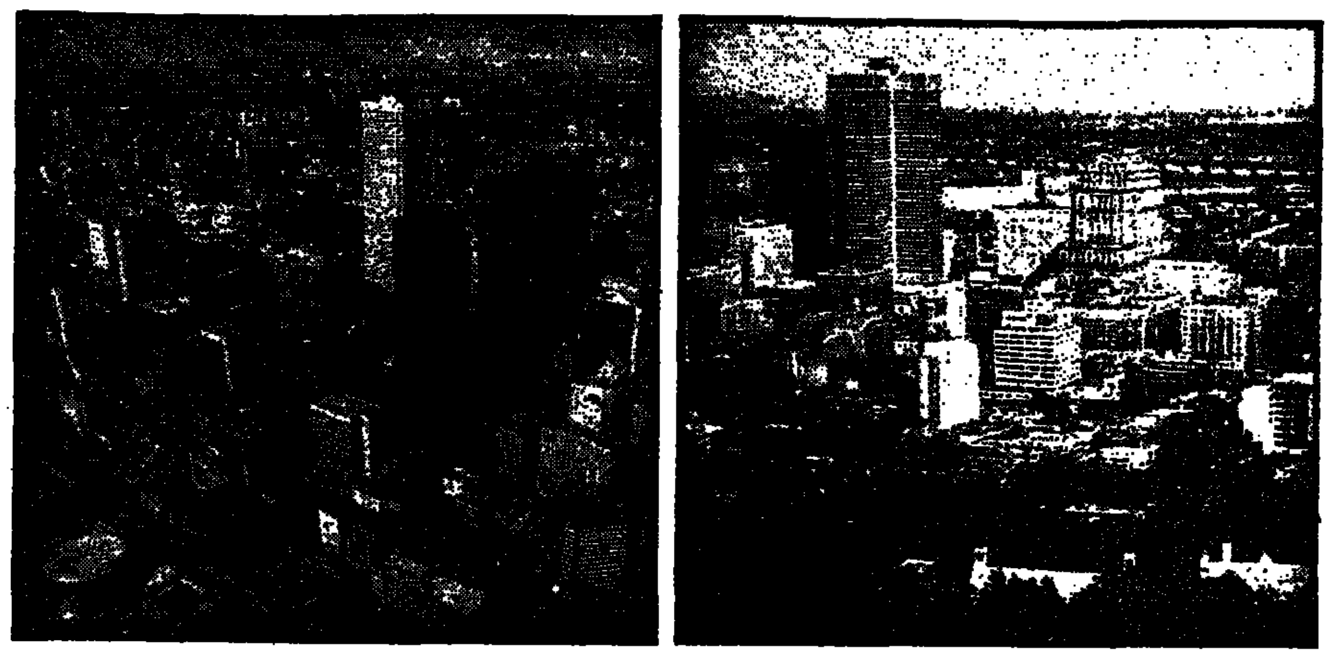
All the country's leading trust companies and several large insurers are now controlled by conglomerates. Links between different types of financial institution have proliferated.

Brascan (controlled by the Toronto branch of the Bronfman family) and the Desmarais family's Power Corporation are among the powerful industrial and commercial groups which have become major participants in the trust, insurance, merchant banking and personal financial planning businesses.

The conglomerates and their subsidiaries have a far lighter regulatory burden than the banks. Trust companies, for example, do not have to hold interest-free reserves. Ownership rules for trusts and insurers are more lenient than for domestic banks.

Meanwhile, the shift in banking away from traditional lending to capital market operations has led the big Canadian banks to look for ways of overcoming the domestic ban on corporate underwriting (a function reserved for securities firms).

Three of the big six—Royal Bank of Canada, Bank of Montreal and Canadian Imperial Bank of Commerce—have begun extensive reorganisations which include the creation of capital market groups. While expanding their international merchant banking networks, the banks are pressing harder than ever for access to domestic corporate underwriting powers.



The financial centres of Toronto and Montreal (right) prepare for tougher competition in the wake of regulatory changes

Roger Taylor

The debate on the future shape of the financial system was given new urgency last year when Canada experienced its most severe banking crisis in more than half a century. Starting with the collapse of two Alberta banks heavily exposed to the depressed energy and real estate markets, the crisis eventually enveloped all the country's small banks as nervous depositors moved their funds to larger institutions.

Four of Canada's 14 domestic banks have disappeared in the past year. Another two, Continental Bank and Bank of British Columbia, are still being supported by central bank funding as they try to win back depositors.

The Inspector-General of Banks, the most senior regulatory official in the Department of Finance, has taken early retirement. And as allegations of lax management in the two Alberta banks have surfaced, the spotlight has once again turned on such issues as conflicts of interest, ownership, and the viability of regional institutions.

The unnerving developments of the past two years have led to a spate of inquiries, reports, discussion papers and draft legislation involving federal and provincial governments. Private sector lobby groups have had a hectic time putting their cases to parliamentarians, civil servants and the public at large.

Echoing the opinions of many in the financial services industry, Mr Tom Hockin, the Federal Minister of State for Finance, whose portfolio includes supervision of financial institutions, says that "the time is over for navel-gazing."

The Ontario Government, which regulates the province's securities industry and most trust companies, has taken a lead by proposing to lower (but not eliminate) the barriers to outside ownership of investment dealers, and to clear the way for greater foreign participation in securities underwriting and trading. Ontario has also paved the way for trust companies to expand their commercial lending portfolios.

The new rules for the securities industry are due to come into force on January 1 1987. By then, the Ontario Securities Commission expects to have given the green light to about 15 leading US, Japanese and European institutions to open offices in Toronto.

In addition, several of the big Canadian banks, including the Royal Bank and Canadian Imperial Bank of Commerce, are expected to snap up quickly substantial minority stakes in leading investment dealers. Other foreign institutions may do the same rather than set up their own operations.

The Federal Government (which regulates banks, insurers and some trusts) is likely to lift the veil on its intentions within the next few weeks after publication of a report on the failure of the two Alberta banks by Supreme Court Judge Willard Estey.

The first step will be legislation to reform supervision of the banking system. Due to be tabled in Parliament later this autumn, the new rules will cover government regulatory agencies as well as the powers and duties of auditors, directors, and managers of financial institutions.

At the same time, Ottawa plans to press ahead with a minimum of delay to frame new rules on the more sensitive issues of owneship of financial institutions, their functions, ways of minimising conflicts of interest and reciprocity with foreign governments.

Some of the proposals are expected to be far-reaching. Mr Hockin has indicated that Ottawa will fall in with Ontario's initiative by clearing the way for banks to invest in securities firms. He has also suggested that the time has come to limit the involvement of big industrial and commercial groups (like Brascan and Power Corporation) in the financial services industry.

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These suggestions are likely to meet stiff opposition, especially from the conglomerates. Pressure is building on the Government to allow even more freedom than it appears to be contemplating at present. Insurance companies want to be allowed to own trusts. Banks want full underwriting powers, and so on.

One financial services analyst suggests a 12 months "free-for-all" period during which Canadian-owned institutions would be able to buy into whatever institutions they wish.

Whichever ideas are eventually implemented, it is clear that the fuse running between international markets, Canadian financial institutions and the governments regulating them is already burning. Most of the participants are now steeling themselves for the bang.

Canada: Banking and Finance 2

Economy/Regulatory Climate

Reforms expected to stir up controversy

IF THERE is one thing that Canada's financial institutions agree on, it is the urgent need for a more unified and predictable regulatory environment.

Their frustration is the product of a period during which legislators have failed to keep up with fast-moving market forces. While studies and reports on reform of the financial system have poured out of Federal and provincial committee rooms, politicians have until recently hesitated to make the difficult choices between sometimes conflicting recommendations.

Canada is a financial regulator's nightmare. Jurisdiction is split between Federal and provincial governments, with Ottawa taking responsibility for banks, insurance and some trust companies, and the 10 provinces each overseeing their own securities industries and most trust companies.

Demarcation lines often overlap. Ottawa was irritated by Ontario's proposal earlier this year to allow federally-regulated banks to take a sizable minority stake in provincially regulated securities firms.

With almost all Canada's leading banks, trust companies, insurers and securities firms headquartered in Toronto or Montreal, determined provincial governments in Ontario and Quebec can play an influential role in setting the pace of national financial reform.

Quebec's former finance minister Jacques Parizeau took a lead in deregulation in the early 1980s by clearing the way for outside ownership in the securities industry. He helped revive the Montreal Stock Exchange by introducing generous tax incentives for investors in Quebec shares. (The measure has proved so expensive for provincial coffers that the new Liberal Government of Mr Robert Bourassa is thinking of watering down the concession.)

More recently, the initiative has passed to Ontario where a vigorous new Liberal Government earlier this year accepted proposals by the Ontario Securities Commission to open the securities industry to greater foreign participation and wider ownership by other domestic institutions.

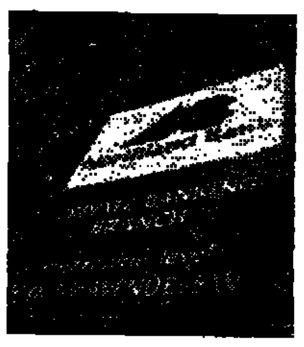
The absence of a harmonised regulatory structure has created some worrying anomalies. While banks and trust companies increasingly offer common services, they are subject to widely different rules.

In line with traditional government policy of separating financial and non-financial activities, no single shareholder is allowed to own more than 10 per cent of a Schedule A bank. Banks may not promote mutual funds, nor take more than a small equity stake in most other types of financial institution.

The rules are far less onerous for trusts or insurance companies. One of the few constraints on trusts is a 7 per cent ceiling on commercial loans relative to total assets.

The absence of ownership limits has facilitated the growth of financial conglomerates (such as Trilon Financial and Power Financial) which are in turn controlled by powerful industrial and commercial groups. Trusts are also not burdened by the same reserve requirements as banks. Co-operative credit unions pay no taxes.

Until recently, the argument for favouring the trusts and credit unions was that they need an opportunity to catch up to the big banks. The banks, accounting for 85 per cent of the financial sector's corporate assets, have the benefit of countrywide branch networks and farflung international



The small banks crisis in autumn last year when the Alberta-based Canadian Commercial and Northland failed appears to have strengthened the hand of the six big banks in the debate on regulatory reform

operations. More than 750 Canadian communities are served by no other financial institution than a bank.

Despite being among Canada's most successful multinationals, the big banks are often viewed with resentment and suspicion at home. To western Canadians, the banks' shiny skyscrapers in Toronto and Montreal symbolise the financial power of the east.

Mr Robert Korthals, president of Toronto-Dominion Bank, sums up the banks' political problems by complaining that Canadians do not share the Swiss view of their banks as a national resource.

But the banks are no longer as dominant as they once were. Indeed, following its merger with Canada Permanent earlier this year, Canada Trust advertised proudly that it was "as big as the big banks." With their fiduciary powers and links to insurers, mutual funds and real estate agencies, the trust companies can offer a wider variety of services these days than the banks.

The conglomerates argue that they bring stability, capital and growth to the businesses they have become involved in. According to Mr Bill Imwood, general counsel at Royal Trust, "that little bit of change has produced a lot of competition."

Banks, on the other hand, contend that by allowing industrial and commercial groups to keep fingers in so many financial pies, the authorities are inviting conflicts of interest, unhealthy trading between different arms of the same organisation, and other abuses. The banks would thus like to see the 10 per cent ownership rule applicable to them extended to other institutions.

Ottawa initially sided with the conglomerates. In a Green Paper published in April 1985, the Government proposed the creation of new financial holding companies which would be allowed to have controlling interests in trusts, insurance and mortgage loan companies, as well as banks and securities firms. Mutual insurance groups and credit unions would also be allowed to use financial holding companies to broaden their horizons.

In terms of the Green Paper's proposals, virtually no area of financial services would be closed to the diversified groups. Abuse would be discouraged by tightening the existing ban on "self-dealing," setting up a new consumer watchdog, and obliging different companies within the same group to publish separate financial statements and appoint separate boards of directors.

The Green Paper offered little comfort for the banks, suggesting that existing banks should be given no new powers until the next dicennial review of the Bank Act, scheduled for 1990.

The climate in Ottawa has changed radically, however, in the past 18 months. The small banks scare in autumn 1985 and the fast-moving international banking environment appear to have strengthened the hand of the six big banks in the debate on regulatory reform.

Mr Robert Mackintosh, president of the Canadian Bankers Association, wonders if "everything isn't up for grabs all over again." Looking at it from a different perspective, Mr Imwood at Royal Trust concedes that "where we were seeing the process running in a very positive direction, there has been a deflection from the original goal."

The Federal Government has served notice that it will go along with Ontario's plans to allow the banks a stake of between 30 per cent and 50 per cent in the securities industry. According to the new Minister of State for Finance, Mr Tom Hockin, there is a disposition now to consider a few changes in the Bank Act and not wait until 1990 to do it.

Mr Hockin is also considering wider ownership curbs. He says that "when you're small and the need for capital is paramount, perhaps it's wise to allow non-financial institutions to bring financial groups into life. But when they get large and there are opportunities for serious conflicts of interest, then perhaps one has to look at decreasing the amounts of ownership."

His views echo those contained in a report last November by a Standing Committee of the House of Commons. The committee called for a new set of ownership rules based on domestic assets, which would apply to all institutions.

Those with assets below C$10bn could be 100 per cent controlled by a single shareholder. On the other hand, a 10 per cent limit would apply to the biggest groups with assets above C$40bn.

The Government is expected to flesh out its ideas in a policy paper to be published before the end of the year. If they follow the lines suggested by Mr Hockin, the reforms are bound to stir up controversy. The big question is whether Ottawa will once again allow opposition to its plans to delay their implementation.

Bernard Simon

Profile: Tom Hockin

Man in the hot seat of the new regime

AS Minister of State for Finance and a member of parliament for just two years, Mr Tom Hockin is one of the most junior members of Prime Minister Brian Mulroney's Federal Cabinet. But his portfolio, which includes supervision of federally-regulated financial institutions has become one of the hottest political seats in Ottawa.

Mr Hockin's predecessor, Mrs Barbara McDougall, who also entered parliament in September 1984, was thrown in at the deep end when two Alberta banks collapsed in September 1985.

Since then, the junior finance minister has had to deal with concerns about the stability of other small banks, the sensitive subject of deregulation of financial services, and the ever-touchy problem of federal-provincial jurisdictions.

Mrs McDougall was moved to a newly-created portfolio —privatisation and the status of women—last June before the Government had finalised its response to the small banks crisis and to fast-moving events in the financial services industry.

Mr Hockin, aged 48, thus has the task of putting a new regime in place. A friendly and forthright man who has a Harvard doctorate in government affairs, the new minister says that "the time is over for navel-gazing. It's now time for government to express its preferred option."

He promises that draft legislation to reform supervision of the banking system will be presented to parliament later this autumn. And he says he is determined "to keep up the pace" of drawing up new rules on ownership of non-bank financial institutions, foreign reciprocity, and banks' involvement in the securities business.

Mr Hockin has a varied background. He was headmaster of a Toronto private school for seven years and has written several books on Canadian government. Immediately before entering parliament, he was president of Sotheby's Canadian subsidiary.

He holds the same southwest Ontario seat in the House of Commons for the Progressive Conservative party as Ontario's popular Liberal premier Mr David Peterson represents in the provincial legislature. Mr Hockin has suggested to the Ontario premier that provincial and federal ministers meet informally in an effort to demarcate their areas of authority in as calm an atmosphere as possible.

During his short tenure at the finance department, the new minister has shown more sympathy than Mrs McDougall to the concerns of the big Canadian banks.

Mrs McDougall once worked for a Toronto securities firm. But Mr Robert Mackintosh, president of the Canadian Bankers Association, says that her successor "is probably approaching this with an open mind."

Following a trip to London in early September, Mr Hockin said that he was impressed by the globalisation of world financial markets.

Tom Hockin, Minister of State for Finance: the time for navel-gazing is over

He is anxious to maintain the enviable stability of Canada's financial system and to provide more security for depositors. But he adds: "We do not want to build an edifice that is going to be rendered obsolete because all the currents are going in the opposite direction."

Bernard Simon

Stock Exchanges

Surviving in a mega-trading world

CANADIAN stock exchanges, already feeling pressure from domestic financial services deregulation, are trying to grapple with an emerging global equities market and the vaunted New York-London-Tokyo axis.

The Toronto Stock Exchange, Canada's largest, the Montreal Exchange, innovative but with slender resources, and the Vancouver Stock Exchange, specialising in junior resource and industrial shares, have different approaches to the threat that global electronic trading between mega-institutions will render them superfluous.

All three are aware that about 40 per cent of the total trading in major Canadian-domiciled stocks such as Alcan Aluminium, Inco and Northern Telecom is now carried out on the New York Stock Exchange or the American Stock Exchange.

As more Canadian stocks become better known and are inter-listed on US exchanges, the trend of trading away from domicile will grow.

The Canadian exchanges are confident however, that good technology, and low costs will enable them to access the global system and to maintain a role as strong regional markets with fast and efficient systems.

The Canadian public stock market is the world's fourth largest, though last year it accounted for only about 2.5 per cent of world trade in equities.

Efficient primary and secondary markets have been built without direct participation by the banks. About 100 securities firms carry out the underwriting and trading functions with much less financial clout than either the banks, the trusts or the insurance companies.

Mr Donald Unruh, the Toronto SE's vice-president, international markets, points out that about 20 per cent of the new global institutions are dealing among themselves to reduce commission and other costs. Trading in these "upstairs markets" operates on razor-thin spreads but on a huge capital base.

The Canadian response in a nutshell, must be based on the aphorism that the lowest-cost producer always wins. This means the lowest possible costs for order entry, execution, clearing and settlement, he says.

Toronto SE research shows that about 75 per cent of the global trading in equities is done by about 3,000 institutions. The average transaction size has increased 20 times in the past decade. Then there are about 15,000 smaller institutions and about 100m individual investors.

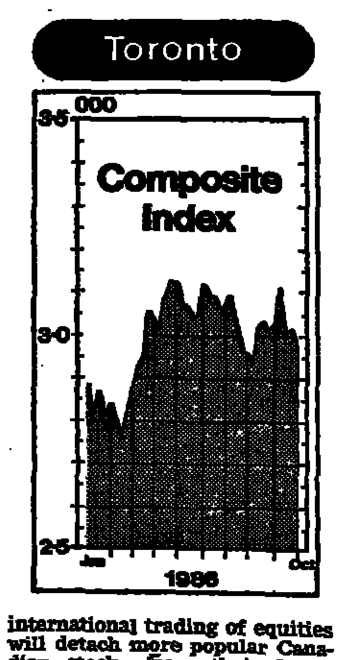
Toronto SE research envisages a global market place having to cope with clearing and settlement of about $1 trillion of equities a year, counting both sides. This suggests an increasing trend to trading equities in the same way as Eurobonds are now traded and to screen trading systems.

The Canadian exchanges have efficient screen trading systems. The Toronto SE has placed about 45 per cent of its 1,600 listed stocks on its pioneering computer-assisted trading system (CATS). Montreal's MORRE system has also proved efficient and economical.

The Toronto SE scored a breakthrough last year by licensing its CATS software to the Paris bourse. CATS trading on the bourse now covers 30-40 stocks. Trades are processed through Toronto SE computers until Paris upgrades its hardware.

Several other European, Latin American and Australasian exchanges have shown an interest in installing CATS.

But the threat that growing international trading of equities will detach more popular Canadian stocks from their home market will remain real, says Mr Unruh. Canadian stock exchange members, in order to survive, already take their trading where costs are lowest and regulations least stifling.



He says the long-term solution is a network of markets linked to each other so that only one automated order book exists for each stock and is located in the home market. Divergent trading methods, hours of operation and levels of automation may make this difficult. But the Toronto SE argues that CATS can help create the linkages needed.

The Montreal Exchange has invested heavily in technology and has been recovering market share in Canada, in terms of value of shares traded. It has also developed "derivative" products as part of its fight for survival, including stock, bond, currency and gold options, lumber futures and gold futures, and links with foreign exchanges.

The Montreal SE is trying to get Canadian investors and Americans to make more use of these risk management products, and is urging a public exchange-based market for the most liquid Canadian bonds. The Exchange has started an international section where foreign stocks can be traded outside the ADR system. Montreal SE president André Saumier sees the internationalisation of financial markets as a major threat to Montreal and other Canadian exchanges. He cites the large proportion of trading in Canadian inter-listed stocks done in New York.

Mr Saumier estimates that at least 25 per cent of the trading in about 60 Canadian inter-listed stocks is carried out in New York. He fears that markets in many second-tier Canadian stocks could soon move over the border.

The loss of revenues implied by such a fund would reduce Canadian exchanges' ability to invest in new technology needed to stay competitive. "Canadian exchanges could become backwaters, living on sufference, while the real marketplace for Canada's major securities has moved away," he says. "And a weakening of secondary markets would undermine primary markets."

Montreal's response is to keep costs down, remain innovative and develop a strong regional role. Other exchanges may do the same thing. Vancouver can develop its specialisation in junior resources and industrial shares on a regional basis — it already has a solid international following.

But technology, fast execution and immediate access to market information will be the key to success in the regional role.

B. S.

Canada: Banking and Finance 3

The Big Six Banks

Sour loans drag down earnings

A MOOD of sober realism pervades the tower blocks housing the head offices of five of Canada's six big banks near the corner of King and Bay Streets in Toronto.

Besides uncertainty on their role in the unfolding deregulation of financial services (dealt with in detail elsewhere in this survey), the bankers have little to look forward to in their operating environment for at least the next 12 months.

As the chief financial officer at one of the big six puts it, "I don't see anything on the horizon that would suggest that Canadian banks are going to have a buoyant 1987. At best, there'll be slow profit growth and high credit losses."

The banks' problems are clearly visible in their recent financial results. The three biggest institutions — Royal Bank of Canada, Bank of Montreal and Canadian Imperial Bank of Commerce—suffered a decline in earnings in the three months to July 31. Return on assets of all the big six are stagnant and their returns on shareholder funds are slipping.

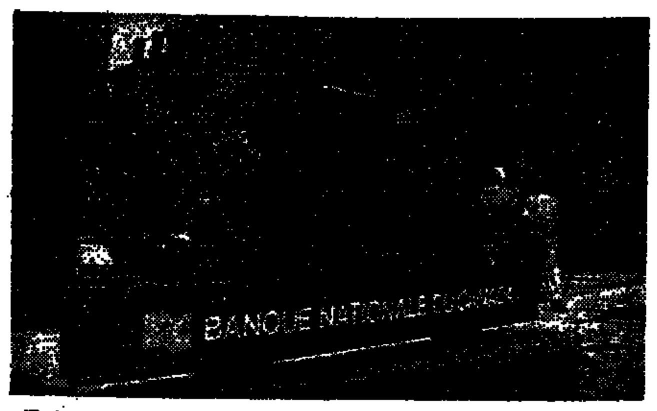
Four smaller institutions have disappeared since the failure of two Alberta banks, Canadian Commercial and Northland, last autumn. Among the four others that have survived the small banks crisis, Continental Bank and Bank of British Columbia are still fighting to recover. Both Continental and Bank of BC continue to be supported by central bank funding.

But the level of advances to the two banks has dropped and both have reported some success in wooing back depositors.

A strong domestic economy, especially in the industrial heartland of Ontario, and falling interest rates have kept the banks' earnings from falling even faster. Consumer and mortgage lending have been among the strongest parts of the banks' business.

All six big banks reported higher interest income in the three months to July 31. While Royal Bank's net earnings slipped by 14 per cent interest income climbed by almost 8 per cent from a year earlier. Helped by a strong housing market, Bank of Nova Scotia's mortgage business grew by 21 per cent in the year to July 31, the main reason for a 6.4 per cent advance in assets.

Tighter control on internal costs, higher fee and foreign exchange income, and some special factors (like Toronto-Dominion's withdrawal of a C$46m surplus from the bank's pension fund) are also propping up bank earnings.



Entrance to the National Bank of Canada's headquarters in Montreal.

Montreal - based National Bank, widely regarded as the brightest spot among the banks at present, broadened its horizons last November by taking control of Mercantile Bank, one of the institutions hurt by the small banks scare.

These positive trends are overshadowed for the time being by the heavy price most banks are paying for their over-enthusiastic commitment to the country's energy industry during the oil and gas boom of the late 1970s and early 1980s.

Many western Canadian energy producers borrowed heavily to take advantage of government policies encouraging the acquisition of foreign-controlled energy companies. The biggest borrower, Dome Petroleum of Calgary, owes C$6bn to 54 Canadian and international creditors.

The recent oil price collapse came just as the borrowers and their lenders appeared to be overcoming the problems of high interest rates in 1980-82 and the subsequent recession. Bank of Montreal, for instance, reached a point in 1984 where its bad debt provisions calculated on a five-year moving average, exceeded actual loan losses.

The trend is now being reversed as the banks move to provide for the sharply higher losses which they are likely to suffer on their western Canadian energy loans. In addition, the inspector-general of banks has ordered them to increase provisions on loans to 32 troubled country borrowers to between 10 per cent and 15 per cent of their exposure.

Mr Terry Shaunessy, analyst at Merrill Lynch Canada, estimates that 1986 write-offs will reach a record C$3.3bn, a third higher than 1985. He expects that growing problems among natural gas producers (who are being hit by weak markets and by domestic deregulation) will keep the banks' losses at a similar level next year, before falling to C$1.5bn in 1988.

Mr Shaunessy estimates that C$1bn of this year's writedowns and C$1.2bn of 1987 losses will be linked to energy industry loans.

As a result of problem loans to the energy sector, Bank of Montreal's 1986 loan losses (estimated at C$572m) are again likely to exceed its provisions this year.

Royal Bank has lifted its loan loss estimate from C$685m in 1985 to C$950m this year, including an extra C$275m for loans to energy industry customers and C$265m for troubled sovereign borrowers. RBC's bad debt provisions charged against income were 29 per cent higher in the first nine months of fiscal 1986 than a year earlier.

Because of the five-year averaging basis for bad debt provisions, any changes in loan losses have a prolonged impact on the banks' income statements. The present jump in sour loans will thus be a drag on bank earnings for several years to come.

The energy slump poses no threat at this stage to the stability of the big banks. All have strengthened their capital bases since Dome Petroleum's problems last loomed over them four years ago. Indeed, some the banks are now regarded as over-capitalised.

Toronto-Dominion's ratio of capital and reserves to total assets, now standing at more than 6 per cent, is the highest in more than 15 years. Echoing his counterparts in other institutions, TD's president Mr Robert Korthals says that "we're positioning the bank more conservatively against the future than we did in 1973."

One analyst's worst-case scenario in the event of a Dome default goes no further than CIBC, the most heavily exposed of the company's 54 creditors, having to sell its head office bulding in Toronto. CIBC lifted its tally of non-performing loans by C$1bn in the third quarter to C$2.6bn to reflect its problems with Dome.

The banks' financial performances have been further dented by increasingly stiff competition for international capital markets business and by rising non-interest expenses.

CIBC's return on international assets has shrunk from over 0.70 per cent in early 1985 to 0.32 per cent in the latest quarter. The bank noted in its most recent quarterly report that inter-bank trading and international merchant banking activities were yielding "much narrower" margins.

Non-interest expenses are climbing faster than the inflation rate as the banks feel the bite of a 1 per cent tax surcharge imposed in the May 1985 budget and a tripling of deposit insurance premiums last February.

The 54 foreign-owned banks in Canada (known as the Schedule B banks) have also lifted their bad debt provisions to allow for loans to the energy and other troubled resource industries. Total loan loss provisions among the foreign banks rose by 44 per cent to C$28.2m in the six months to April 30. The local subsidiaries of Credit Suisse and Standard Chartered posted the biggest increases.

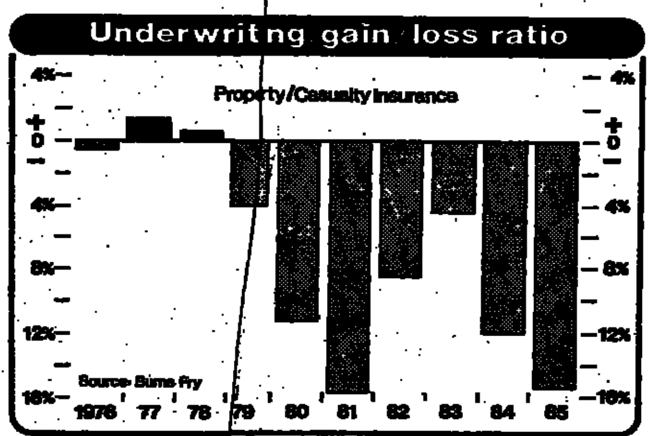
But lucrative off-balance sheet activities have helped many of the foreign banks improve their overall profitability at a faster rate than the Canadian institutions. Net income of the foreign banks as a group jumped by 26 per cent in the first half of fiscal 1986.

Bernard Simon

How the big six fared

Nine months to July 31 (All figures in C$)

	Net income (m) 1986	Net income (m) 1985	Assets at July 31 (bn) 1986	Assets at July 31 (bn) 1985	Return on assets percentage 1986	Return on assets percentage 1985	Loan loss provisions (m) 1986	Loan loss provisions (m) 1985
Royal Bank of Canada	377.5	356.2	96.2	91.7	0.52	0.52	595.0	463.0
Bank of Montreal	271.8	247.5	88.9	80.0	0.42	0.42	388.0	311.7
Canadian Imperial Bank of Commerce	244.0	260.0	78.7	73.8	0.41	0.48	466.0	366.0
Bank of Nova Scotia	236.1	217.7	61.8	58.1	0.51	0.49	104.0	79.2
Toronto Dominion Bank	298.5	305.7	51.0	50.3	0.76	0.85	263.5	191.9
National Bank	138.7	115.1	26.7	21.5	0.73	0.75	149.5	97.1



Insurance

A tale of two businesses

RECENT EVENTS inevitably turn any account of the fortunes of the Canadian insurance industry more than ever into a tale of two businesses. On the one hand is the life sector making steady progress and looking for diversification opportunities on the other is a general insurance industry tentatively emerging from a traumatic year that has thrust it onto centre stage of the country's political scene.

The general, or property/casualty industry, in fact, has much to its chagrin been given an important role in a drama whose cast includes its US counterparts, Canadian provincial and Federal regulators, municipalities, Canada's national ski team, a boy trailbike rider, and thousands more, many of them lawyers.

The drama is generally called the North American Insurance Availability Crisis. While circumstances and timing differ on each side of the Canadian/US border, the general picture is similar, although Diane Urquhart, analyst at stockbrokers Burns Fry, notes that the situation in Canada was not quite as bad as in the US.

After years of underwriting losses caused by intense competition that depressed premiums, and court verdicts that pushed awards upwards, the general insurance industry has boosted premiums sharply and raised deductibles in an attempt to stem the tide.

It was responding also to a sharp downturn in reinsurance capacity as the world's reinsurers withdrew chastened from the market or hoisted their own rates. The resultant squeeze has caused a shortage of insurance availability, particularly in personal and municipal liability sectors.

In Canada, various factors have combined to produce the present situation. The general insurance business has always been fragmented, and Royal Insurance of Canada, the largest factor, has less than six per cent of the market, but the problem has been exacerbated by a number of new entrants over the past few years, backed by reinsurance arrangements.

Prices were therefore driven down across the board and some major insolvencies have followed. As Mr Roy Elms, executive vice-president at Royal, puts it the industry has become "overprovided and over-fragmented."

At the same time the legal context was changing. In general terms, the whole concept of liability has altered over the past 15 years, giving rise to what insurers call the "deep pocket" theory whereby the injured party's ever-rising medical costs are awarded against those best able to pay, regardless of liability. This comes against a background of ever-rising awards, although not to the same extent as in the US.

Specifically, a spate of court decisions and legal reforms have generally gone against the industry in Canada over the past 10 years, and their cumulative effect has been considerable. For example, an amendment in 1978 to the Ontario Family Law Reform Act extended claims for loss caused by death or injury to a family member beyond immediate relatives, and claimants were also allowed to seek compensation for loss of care, guidance and companionship along with financial loss.

This has proved expensive and irritating to the industry. Mr Jack Lyndon, president of the Insurance Bureau of Canada, remarks that "your third cousin is not going to have a traumatic experience if you lose an ear."

Some specific court awards have also shocked the industry. Last year the municipality of Brampton, Ontario was ordered to pay C$6.3m after a trailbike rider was paralysed in an accident in a municipal park. The award is now being appealed, but in any event rates for municipal liability insurance have risen as much as five-fold over the past two years.

In financial terms, the effects on the industry have been predictable. Underwriting losses have been made in all but two of the past 10 years, culminating in a record loss of C$1.26bn in 1985. This was despite a 13 per cent rise in net premiums earned, from C$7.7bn in 1984 to C$8.7bn.

Premiums began rising from the middle of 1985, as the inevitable process described by Mr Elms as "a one-time correction for the past stupidities of the business collectively" took hold. The resulting tightness in the market was, however, bound to have wider implications, and when the national ski team warned in January that it may be forced to pull out of international competition because of difficulties in getting cover, the problem became one of public concern.

Since then, there have been a number of initiatives which have given the industry a degree of confidence that the worst of the crisis has passed. Extensive talks between the industry and

CONTINUED ON PAGE 4

Canada: Banking and Finance 4

Trust Companies

On the takeover trail

AN UNPRECEDENTED burst of takeover activity over the past year has demonstrated the commitment of leading Canadian trust companies to become serious rivals to the banks in terms of size and financial muscle, and has illustrated their attractiveness for companies wishing to enter the financial services sector.

In April, Imasco, the fast food, tobacco and retailing group in which BAT Industries of the UK has a 44 per cent stake, won its battle to take over Genstar for C$2.4bn (US$1.7bn). The prize for Imasco was Canada Trustco, which with Rolay Trustco dominates an otherwise highly-fragmented industry and which had itself been swallowed up by Genstar only months previously.

In the same month Royal Trust paid C$239m for Dow Financial Services, marking a major expansion of its international presence and an important part of its long-term strategy to become Canada's leading financial services group.

The smaller trust companies have also been active. This summer Montreal Trustco (MTU) approximately doubled its size through the C$130m acquisition of Credit Foncier, a national mortgage loan company. The deal puts MTU alongside National Victoria and Grey, which is itself the product of the 1984 merger of two Ontario trusts and behind the two major groups.

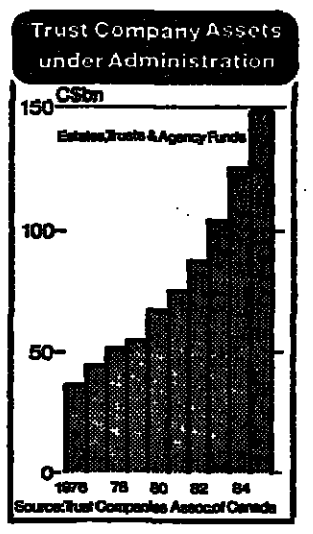
What lies behind all this activity? On the one hand, even without the present blurring of lines between the four pillars of the Canadian financial community, trust companies have been well-placed to expand and diversify.

While competition is intensifying with the banks in what Mr Michael Cornelissen, president and chief executive of Royal Trust, calls the trusts "bread and butter business"—home mortgages—the banks are excluded from another traditional, and profitable, trust company preserve, fiduciary services such as estate administration, stock transfer and fund management.

Yet the trusts have also been able to branch out into banking, and now offer a raft of services including personal cheque accounts, deposit accounts and term loans. Royal Trust last year became the first bank or trust to offer a personal financial planning service.

At the same time the exclusion from, or tight curbs upon, expansion elsewhere has proved a blessing in disguise. The industry has no exposure to Third World debt, while the trusts' oil and gas loans are minimal, reflecting a limit of 7 per cent on their commercial loans business as a proportion of total assets.

An exception here is the situation in Western Canada where trusts have still not fully recovered from the 1981-83 recession,



and are now seeing their mortgage business being further squeezed by the fallout from the recent collapse in oil prices.

Furthermore, while no shareholder can take more than a 10 per cent stake in the federally-regulated banks, the leading trusts, some of which are provincially-regulated, have all become part of, or affiliates of, aggressive financial conglomerates with interests ranging from life and property-casualty insurance to commercial real estate and venture capital. Royal Trust, for example, has been transformed since coming under the wing of the Toronto branch of the Bronfman family in 1980.

These links—a sensitive political issue in a country which theoretically makes clear distinctions between different financial sectors—are important for the trusts' future development, as they open the door to "networking" between different branches of the holding company, let alone between the rapidly expanding services of the trusts themselves. To succeed in this, however, requires major investment in computing power, and the concept is still in an embryonic stage.

At Royal Trust, for example, integration of computer processing across the different financial subsidiaries, Trilon Financial, the parent company, is reducing transaction costs. An experimental office in Vancouver is housing different Trilon outlets under one roof, making it possible to sell more products per consumer.

This process is also being developed within Royal Trust, where its Royal LePage estate agencies can now approve a mortgage on the spot to prospective house-buyers. Developments like this are important if the trusts are to hold onto their place in the mortgage market, of which the banks have taken an estimated 55 per cent share since entering the business in the 1960s.

Despite this, banks have over recent years become increasingly upset by the somewhat confused regulatory position which has allowed the more aggressive of the trusts to expand into their patch. Mr Cornelissen remarks that "we can either on our own or through an affiliate provide any service that a consumer or corporation may need."

However, the current uncertainty over possible sweeping changes in provincial and Federal legislation raises the possibility that the trusts, which have more to lose, may see some of their competitive advantages taken away.

Federal legislation has been held up pending a judicial report on the collapse in 1985 of two small banks in Alberta, but in the meantime Mr Cornelissen notes a growing interest among legislators in questions of concentration of power and ownership. This is regrettable, he says, as the bank failures had nothing to do with these issues.

The more important factors, he says, are "solvency and competitiveness in a global sense," and here the financial conglomerates "have done a lot to strengthen the industry, by helping to raise equity."

While the position of individual trusts differ, they share, among themselves and their banking rivals, a desire for legislation at both provincial and Federal level to be modernised and harmonised.

Ontario is likely to pass its Loan and Trust Act next week, but it is not yet clear when Federal legislation will reach the statute book. It seems likely that some of the provisions of a *Federal Green Paper of* April 1985, which imposed a stringent ban on "self-dealing" between different subsidiaries of financial holding companies to prevent possible conflicts of interest, will not become law.

On the other hand, there are indications that some form of legislation on ownership is being considered, which could have a profound effect on the leading trust companies and force major shareholders to divest part of their holdings.

Progress on reform has been painfully slow, and is likely to remain so. Mr William Potter, president of the Trust Companies Association of Canada, notes that there is not much "political mileage" in trust legislation. Such matters, after all, are hardly the overriding concern of the man in the Toronton streetcar.

Indeed Mr John McColl, financial analyst at stockbrokers McLeod Young Weir, believes the present Federal government would not be prepared to weather the storm it would cause by severely restricting the flexibility of the financial conglomerates. On the ownership question, "the toothpaste is out of the tube," he says.

In the meantime, the trusts are adopting widely differing business strategies. Royal, with total assets, including funds under administration, of about C$68bn, is already reshaping its expanded international side to realise the potential "niche" opportunities in corporate advisory services, asset management and private banking for the wealthy.

No other trust has adopted this route. Canada Trustco, with the largest branch network, has a much more domestically-oriented strategy, based on tapping the full potential of the savings and loans business.

Beneath them the medium-sized trusts are working hard to reach the "critical mass" needed to achieve economies of scale without losing management control. Mr McColl suggests C$5bn is the bare minimum for a deposit-taking institution to afford the technology needed to make product diversification work.

As part of this process, *midde-ranking trusts* have taken advantage of stock market conditions and the industry's high rating to make public offerings of equity, indirectly helping to boost valuations of their present companies.

That leaves around 80 trust companies with corporate assets of C$1bn down to as little as C$100,000. Some consolidation is expected, but this is likely to be a long process, and in an increasingly competitive environment survival often depended on establishing a particular geographic or ethnic niche.

Andrew Baxter

Top five trust companies in 1985

	Average assets (C$bn)	Net *income* (C$m)	Total *equity* (C$m)	Major shareholders (current)
Canada Trustco	20.5	135.5	951.4	Imasco
Royal Trustco	12.2	113.0	1,131.0	Trilon Financial
National V. and G.	8.5	61.8	445.6	E. and L. Financial, NVG Holdings
Guaranty Trust	3.3	16.2	154.2	Traders Group
Montreal Trustco	2.8	18.4	174.7	Investors Securities Management, Power Financial

Profile: Mervyn Lahn

Anti-conglomerate man

TO BE taken over twice in one year is a rare experience for any chief executive, but to survive the ordeal after a bitter, and well-publicised fight to stay independent takes skill—and a touch of bravado.

That however, is the achievement of Mr Mervyn Lahn, president and chief executive officer of Canada Trustco (CT), and a man whose opposition to concentration of power in the Canadian financial services world makes him an exception to the prevailing opinion within the trust industry.

For an understanding of the events of the past year at CT—now the country's largest trust in terms of corporate assets and among the top five deposit-taking institutions—the story begins in August 1985 when Genstar, a financial services and industrial conglomerate, launched a fiercely-contested bid for CT.

A rival partial bid was launched by Manufacturers Life, which had a 27 per cent stake in CT, and CT's directors advised shareholders to accept this. But to Mr Lahn's intense displeasure, Genstar raised its offer and CT was forced to give in.

Then in March this year, Imasco, the tobacco, fast food and retailing conglomerate which had been looking for a "fourth leg" in financial services, offered C$2.4bn for Genstar, prompting a debate in the Canadian House of Commons as Tory backbenchers worried about possible conflicts of interest.

By April, CT had new owners again as Imasco's bid succeeded. Little wonder, therefore, that at the company's annual meeting the following month, Mr Lahn noted tartly that the final chapters of a forthcoming book about the 131-year-old concern 'may well read more like a fictional novel than a corporate history."

In the event, Mr Lahn has seen off Genstar and turned the tables on Imasco. Under a deal with the Federal Government, CT will operate autonomously with its own board, and no "self-dealing" would be allowed between it and Imasco's other interests.

Imasco will also have to comply with ownership rules on trusts if they are introduced, but the deal can be reviewed at the end of next year if there has been no change in the rules.

The agreement has served Mr Lahn well, because the takeover is "essentially a non-event at this point in time," as he puts it. This is despite Imasco having 97 per cent of the shares. Furthermore, Mr Lahn seems happier with Imasco than with Genstar's "largely indecisive" board nominees, and has ensured his own independence of action.

This he regards as vital in an increasingly competitive business climate, and he has no intention of changing course just because CT is now part of Imasco.

The strategy at CT, in fact, is a clear reflection of Mr Lahn's viewpoint on the Canadian financial scene. He steers a deliberately different course from the more "up-scale" global strategy at Royal Trustco, and is even selling some international operations formerly owned by Genstar's Canada Permanent *Mortgage operation*, now absorbed into CT.

Instead, he sees CT as a "people's bank," remaining heavily reliant on the savings and loans business and focusing on the "middle market" of over-45s. Weapons in the battle with deposit-taking revivals include 8 am till 8 pm opening hours, six days a week, and Johnnycash 24-hour Money Machines.

He has no truck with the view that the proliferation of services on offer by trusts is best handled by conglomerates. "One can do networking without having ownership," he says. "That can be just as effective, in terms of the offering of a variety of services at one stop."

Underpinning all this is a belief that, rather than entrust the future of Canada's financial services sector to

Mervyn Lahn, president and chief executive of Canada Trustco: fighting for independence with a touch of bravado

conglomerates, a level playing field should be created in which banks should be allowed to become trusts and vice versa. The same ownership limitations should be applied to both, perhaps 20 per cent to allow a shareholder to account for the stake on an equity basis.

This, of course, would require Imasco to divest much of its holding in CT. It would also give CT the ability to expand its commercial lending, leading Mr Lahn to admit that the proposal would represent "a bit of enlightened self-interest from a corporate and personal view."

Mr Lahn has never disguised his impatience over Ottawa's inability to resolve these regulatory problems. Referring to the Federal Government's promise to introduce new legislation within the next year or so, he told shareholders in May that "past experience has taught us not to hold our breaths."

He now believes the Government has made up its mind, but says: "I can't pretend to know what will happen." The general consensus, however, is that Mr Lahn will not get all he wants, although some ownership restrictions now seem likely.

Whatever happens, Mr Lahn is cautious about his own future after the ructions of the past year. "That decision is front and centre at the moment. It may sound immodest, but I have a number of options."

Andrew Baxter

Insurance tale

CONTINUED FROM PAGE 3

the Canadian Bar Association have produced broad agreement on problem areas in Ontario, and reforms needed. These include recommendations to limit the scope of claims by relatives, and to reduce the rate and extent of pre-judgment interest.

The Ontario Government itself appointed a task force headed by Dr David Slater, former chairman of the Economic Council of Canada, to investigate the crisis. It recommended earlier this year that "steps be taken toward implementing a fundamentally different system of personal injury compensation, first, in respect of automobile accidents, but eventually, in respect of all accidents."

The task force proposed a *mandatory first-party insurance* coverage system for the majority of Ontario citizens, backed up by incentives for careful driving. As an alternative, it recommended a no-tort system, ie one that removes the right to sue.

Reforms are now being considered by Mr Monte Kwinter, Ontario's Minister for Financial *Institutions*, and the insurance industry is keeping up the pressure for change. However, much will depend on whether the industry and regulators can "turn round the psychology" of litigiousness, as Mr Lyndon puts it.

In the meantime, the industry has set up, in concert with government, a voluntary pool, Ontario Liability Insurers, to offer insurance to organisations and corporations that have been refused cover. Municipalities are also being encouraged by Ontario to band together and insure themselves. A partial response has been made to the problems of pollution insurance, which are particularly marked in Ontario.

Private sector initiatives include the establishment next year of the Canadian Insurance Exchange, modelled loosely on the Lloyd's of London insurance market, while this year also saw the emergence of a small company offering to "insure the uninsurable" at premiums described by one analyst as "totally outrageous."

Still, major specific problem areas remain. Product liability for Canadian companies exporting to the US is a disaster area, and Mr Lyndon says many Canadian companies are now terrified of writing this business. In personal motor insurance, Mr Elms says there is still a "fundamental rate inadequacy."

Accordingly, no one in the industry is prepared to forecast when it will collectively make an underwriting profit again, but a reduced loss is expected this year and the industry statistics for the first quarter are encouraging.

It is, of course, a matter of some relief to the industry that investment income in the booming stock markets over the past four years has more than offset losses on underwriting.

Investment income has also been of benefit to the life insurance sector, whose progress during the 1980s has been rather more sedate. The industry's earnings record has been strong, helped by disinflation which tends to make life insurance products more attractive.

Future growth, however, is likely to depend on the success of diversification efforts, in terms of products and geographical expansion, as the domestic *market is generally* seen as mature. On the product side, there has been a growing trend towards annuity business, prompted by the desire for retirement income, as opposed to whole-life business.

The major Canadian companies—in an industry less fragmented than the property/casualty sector—are already well-known names on a worldwide basis, and have expanded in the US in the face of regulatory obstacles at home. Elsewhere, Mr Jalynn Bennett, vice-president for corporate development at Manufacturers Life, noted that the Pacific/Asia region was providing high levels of incremental growth.

Diversification within Canada, however, is likely to depend on the pace of regulatory change, including the possible implementation of proposals putting stock and mutual companies on an equal footing to spread their wings through holding companies. While life companies have already taken advantage of the blurring of functions between Canada's financial pillars, the future path of legislatory change is by no means clear.

Andrew Baxter

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Investment Banks

Strategic restructuring

EVENTS IN the past month illustrate the strenuous efforts Canadian banks are making to keep abreast of the explosive growth in worldwide investment banking.

On September 23, Bank of Montreal opened Bank of Montreal Capital Markets, its new London-based investment banking arm. Earlier in the month, Canadian Imperial Bank of Commerce started putting in place a restructuring which includes the creation of an investment bank as one of three separate entities within the CIBC group.

Royal Bank of Canada has appointed a new chief executive for its drifting merchant bank subsidiary, Orion Royal. Bank of Nova Scotia, which, as usual, has kept its cards close to its chest, has quietly appointed a senior vice-president for mergers and acquisitions, and a strategist to chart the bank's response to the expected loosening of domestic regulatory barriers.

The Canadian banks are determined to make up at least some of the ground they have lost in recent years to US, European and Japanese institutions in underwriting and distributing securities and related activities.

CIBC aims to be among the world's 15 leading investment banks by the mid-1990s. According to Mr Paul Cantor, president of the new investment bank unit, "there are going to be a lot of losers and not a big number of winners. Unless one aims for the very top in this exercise, the probability is that one will fall short."

Similarly, Mr Geoffrey Styles, Royal Bank's vice-chairman, predicts that Orion's fortunes will improve quickly now that a new chief executive (Mr John Sanders, formerly of Warburg Securities) has been installed.

Canadian banks have a number of formidable points in their favour as they try to strengthen their investment banking capabilities. Their extensive domestic retail bases give them a stable source of low-cost funds. The Canadian institutions are sturdily capitalised, allowing them to take relatively large positions in securities trading and swaps.

They already have well-established operations outside Canada, giving them many useful contacts and considerable expertise in international credit analysis.

Mr Cantor sees the Canadian banks' size as more of an asset than a liability. Noting that investment banks are outgrowing their image as small, agile boutiques, he argues that "what we're really good at is managing bureaucracy. Investment banks will increasingly have to manage bureaucracies."

But the Canadian banks have a major handicap. While their international arms can offer a full array of merchant banking services, they are barred from corporate underwriting on their home territory. At the same time, their Canadian base obliges them to incur the cost of large trading rooms and nascent merchant banking departments in Toronto.

To the chagrin of the banks (and local securities firms—which have a monopoly on corporate underwriting), many of the biggest Canadian borrowers have thus turned to US, Japanese and European institutions to manage their international capital market issues.

Foreign bank subsidiaries in Canada have become increasingly active in investment banking. While also barred from underwriting, they are able to funnel business to their powerful offshore affiliates.

Furthermore, they have expanded their services in the free-earning merchant banking activities which are allowed in Canada—mergers and acquisitions advice, swaps and so on.

Eleven foreign-owned banks had a higher proportion of non-interest income to total earnings than any Canadian bank in the first half of fiscal 1986. Citibank, Chase Manhattan, Morgan Bank and Bankers Trust have been among the most active in merchant banking. Goldman Sachs is about to set up an office in Toronto and Japanese banks have expressed interest in expanding their activities in Canada.

Obtaining domestic underwriting powers has become a key objective of Canadian banks in the current debate on regulatory reform. Mr Styles of RBC says that "as a fundamental objective, we would like to be in the investment banking business full-scale in Canada."

Meanwhile, the banks are scurrying to beef up their international operations. Through Orion and its stockbroking subsidiary Kitcat and Aitken, RBC now has about 500 employees in London. It is strengthening its West German unit and hopes to expand its New York-based business as a trader in US government securities.

RBC, CIBC and Toronto-Dominion have become significant forces in Australia. Capel Court Investment, the investment banking arm of National Mutual Royal Bank (a joint venture between RBC and National Mutual Life Association) recently merged with TC Powell and Partners to create Australia's biggest securities firm. Both CIBC and Toronto-Dominion have bought Australian merchant banks.

Mr Cantor says that CIBC is "actively investigating" the acquisition of securities dealers in Australia and Hong Kong. Its London stockbroking subsidiary, Grenfell and Colegrave, may apply for a foreign dealer's licence in Canada.

The banks hope that these moves will increase their appeal as international underwriters to Canadian borrowers. As an early sign of success, Bank of Montreal cites its appointment earlier this year as co-manager for a British Columbia Municipal Finance Authority Eurobond issue.

As commercial banks, the Canadian institutions (like many of their counterparts in other countries) face the problem of adjusting to the more free-wheeling, higher paid world of investment banking.

Despite past tensions between the commercial bankers in Toronto and merchant bankers in London, RBC says that Orion will remain its main vehicle in international capital markets.

On the other hand, Bank of Montreal and Toronto-Dominion are trying to maintain corporate cohesion by building up their investment banking from within existing organisations. Mr George Neal, head of BCM's new capital markets group, says that "We're ensuring that the investment banking and commercial banking mentalities are partners right from the beginning."

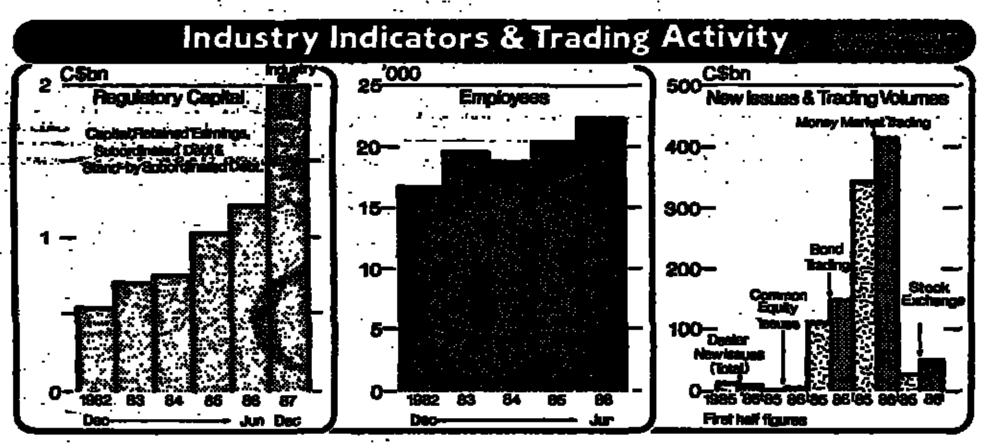
CIBC is a hybrid. The new investment bank, itself designed as an indigenous creature, must take account of the group's existing investment banking institutions, notably CIBC Limited in London.

The problems of marrying two divergent cultures may become more pressing if the banks are allowed to open full-service investment banking units in Canada. For the moment, that's a price they're willing to pay for getting the same powers on their home turf that they have abroad.

Bernard Simon

Investment Dealers

Not quite a Big Bang for brokers



AMID THE DEBATE over when, if ever, the legislative foundations of Canada's four financial pillars are rebuilt, one date has emerged as fixed—or as fixed as anything can be in such a fluid regulatory environment.

On January 1, 1987, Canada's major investment dealers, by far the smallest of the four sectors in terms of capital, will for the first time face significant foreign competition in their home market, and soon afterwards could see other domestic financial institutions buying into them.

There is complete agreement among the companies, their regulators and their employees that the changes will have a profound and lasting effect on stockbroking in Canada, but there are plenty of divergent opinions on the likely beneficiaries — and survivors. "It's not quite the Big Bang, but it's a bang," says Mr Andrew Kniewasser, president of the Investment Dealers' Association of Canada.

No new foreign securities firm has been allowed into the domestic market since 1971, when Merrill Lynch's purchase of Royal Securities brought the ownership of the industry into public debate. Since then, Canadian investment dealers have been able largely to maintain the status quo, arguing that a country so dependent on the US in other areas needed a domestically-owned and controlled securities industry with a commitment to maintaining a nationwide retail network.

Meanwhile, however, the world was changing. The internationalisation of the securities business, the need for greater risk capital to offer a full range of services in equity and bond trading, the pressure from Wall Street to be allowed in, and the US push for free trade in financial services have created strong external pressures on the industry.

Earlier this decade, Gordon Capital, whose entrepreneurial approach to equity trading has been one of the most powerful internal instrument of change, sought permission for an innovative joint venture with Groupe Bruxelles Lambert of Belgium. The Ontario Securities Commission, motivated by a desire to keep Toronto in the top rank of world financial centres after London, New York and Tokyo, took the request as an opportunity to review the industry's ownership rules.

The result was an announcement this summer of the changes due to be implemented on January 1. The limit on single foreign ownership of an Ontario securities firm will be raised from 10 per cent to 30 per cent, while foreign financial institutions will also be allowed to set up greenfield operations in the province.

Somewhere between 12 and 20 licences will initially be awarded to foreign companies, with each firm's capital restricted to 1.5 per cent of the industry total. Mr Stanley Beck, OSC chairman, said the OSC would monitor the foreign entrants for "excessive growth."

In addition, Canadian financial institutions will be able to own "somewhere between 30 and 50 per cent" of an investment dealer, according to Mr Beck, and the industry believes the final figure will be closer to 50 per cent.

Here, however, there is a snag. The securities industry is regulated at provincial level, but banks are Federally-regulated, so it will require changes in the Bank Act to allow them to take advantage of the new provincial rules.

A consolation for the banks, however, is that any foreign securities firm whose sponsor, or major shareholder, is a financial institution already doing business in Canada would not be allowed in.

As for the identity of the new entrants, Mr Beck suggests that perhaps six or seven US securities firms, the four major Japanese houses, and three or four strong UK firms may be allowed in.

Senior executives in the domestic industry believe the foreign entrants will find the "greenfield" option preferable to taking a 30 per cent stake in an existing company—large enough to make a dent in earnings if something goes wrong, but too small to give control. An exception involves the 10 per cent stake held in McLeod Young Wier by Shearson Lehman of the US, which is widely expected to be boosted to the new maximum.

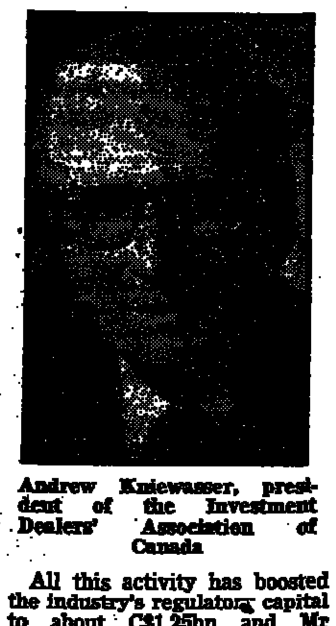
There is no doubt that much of the domestic industry would have preferred the old regulatory framework to continue, but in the face of the inevitable it has responded quickly, and in a variety of ways, to the new challenge.

Aided by a strong stock market, there has been a spate of equity offerings by the investment dealers, headed by a C$100m domestic and international issue by Dominion Securities, lifting the company's regulatory capital to some C$250m or 20 per cent of the industry total.

Nesbitt Thomson Bongard, another big investment dealer, tapped the market for C$80m and last month snapped up F. H. Deacon Hodgson, a small Toronto dealer, for C$20m. Revealingly, Deacon saw no future for a company of its size in the new environment.

Elsewhere, Wood Gundy and Gordon Capital agreed to merge, then broke off their engagement at the 11th hour, in a deal which would have matched Gundy's extensive retail network and unrivalled international presence with Gordon's capital-intensive, high productivity "share boutique" philosophy.

A further strategy has been the search for a cosy niche. Loewen Ondaatje McCutcheon, for example, more than doubled its capital with a recent C$30m equity offering and now plans to concentrate on corporate financing for medium-sized companies as profits on institutional trading are being squeezed.



Andrew Kniewasser, president of the Investment Dealers' Association of Canada

All this activity has boosted the industry's regulatory capital to about C$1.25bn and Mr Kniewasser expects the total to reach C$2bn by the end of next year. Even this, however, is small by US standards.

Those dealers taking the public issue route are, predictably, optimistic about the future. Mr Anthony Fell, president and chief executive of Dominion Securities, says the industry has more scope to make money than ever before, and believes that "the key to the business in Canada is retail distribution strength."

Foreign companies, he says, will not wish to set up extensive retail networks throughout the country, but are likely to concentrate on Toronto.

However, even if this is the case, most companies believe there will be a sharp rise in key employees' salaries, as the foreign companies begin to build their own operations. Mr Ian Steers, London-based vice-chairman of Wood Gundy, says foreign companies will have to look for local employees, causing pressure on a much narrower employment market than in the UK, which is experiencing similar growth in salaries ahead of Big Bang.

Investment dealers are also worried that foreign concerns will cream off the best business, as Mr Beck acknowledges. Mr Fell believes the new firms will focus initially on bond trading, much of which takes place in the so-called "exempt" market, an unlicensed forum for trading between institutions. Registration will now be required for this fast-growing sector.

In any case, the new Ontario rules are widely seen as a transitional phase, and Mr Beck has said that further changes could be made if the market demands them. Looking ahead, Mr Neil Baker, a second-in-command at Gordon Capital, says that while new competition would come next year in the shape of companies such as Goldman Sachs and Drexel Burnham Lambert, "very quickly we will have the real heavies in the business"—Citicorp and the big Japanese banks.

Whether the changes help to retain Toronto's position as a major financial centre remains to be seen, but it seems inevitable that, within Canada itself, the city's dominant position will be reinforced. The Toronto Stock Exchange already accounts for 76 per cent of securities trading in Canada, and the arrival of foreign firms in Toronto is likely to increase this.

At the same time a consolidation of the industry, which now comprises about 100 firms nationwide, is expected quite rapidly.

Still, if the future is full of uncertainty, the past few months of the old system have brought a glow to many a broker's cheeks. Trading volumes and profits are at record levels, but last month's sudden reverses on world stock markets raise the question of how the Canadian securities industry would cope with the regualtory changes in the event of a bear market.

Mr Beck responds that there would be fallout, but not to the extent that might occur in the UK. This is because potential new entrants are likely to test the water next year rather than jump in early with large commitments, as has tended to happen in the run-up to Big Bang.

Andrew Baxter

Analysis of bank advances and acceptances

to UK residents by reporting institutions in the UK at August 20 1986 (Table 5, Bank of England Quarterly Bulletin)#

£m

INDUSTRIAL DETAIL

All banks (amounts outstanding) (sterling and other currencies)		Total in UK residents	of which in sterling	Agriculture, forestry and fishing	Oil and extraction of natural gas	Other energy industries	Water supply	Total manufacturing	Extraction of minerals and ores	Metal manufacturing	Mineral products
Loans and advances	1986 May 21	167,903		5,963	2,300	1,067	535	22,368	587	859	856
	Aug 20	175,869		6,221	2,620	1,079	562	22,365	610	930	891
Acceptances	1986 May 21	13,361		114	297	101	—	5,284	100	195	173
	Aug 20	12,722		71	209	100	—	5,710	145	187	122
Total	1986 May 21	181,264		6,078	2,606	1,190	535	27,652	687	1,054	1,029
	Aug 20	188,596		6,292	2,838	1,179	562	28,075	755	1,117	1,013
of which in sterling	1986 May 21	142,042		6,041	1,138	522	51	22,734	484	892	688
	Aug 20	149,004		6,265	1,056	489	53	22,830	486	793	645
Changes in total lending in three months ended: In sterling	1986 May 21*	+4,710		+116	−211	−137	−22	+514	−3	−66	−10
	Aug 20	+6,962		+225	−82	−34	+2	+96	+22	−10	−40
In other currencies†	1986 May 21*	+2,761		+1	−20	−75	−7	+6	−63	−16	−31
	Aug 20	+1,570		−12	+267	+2	−2	+225	+22	+68	+19
Group detail (total outstanding) (sterling and other currencies) Retail banks	1986 May 21	86,492	81,671	5,952	406	262	9	12,306	270	534	475
	Aug 20	90,205	85,206	6,092	526	185	15	14,912	297	518	423

All banks (amounts outstanding) (sterling and other currencies)		Chemical industry	Mechanical engineering	Electrical engineering	Motor vehicles	Other transport equipment‡	Other engineering and metal goods	Food, drink and tobacco	Textiles, leather, clothing and footwear	Other manufacturing
Loans and advances	1986 May 21	1,542	1,909	2,510	671	1,395	1,812	3,639	1,567	5,004
	Aug 20	1,462	1,804	2,646	662	1,416	1,747	3,691	1,605	4,909
Acceptances	1986 May 21	518	694	780	766	137	196	1,278	225	762
	Aug 20	413	225	667	962	118	229	1,640	237	723
Total	1986 May 21	2,060	2,603	3,290	1,437	1,532	2,008	4,917	1,792	5,767
	Aug 20	1,875	2,029	3,312	1,624	1,534	1,977	5,331	1,842	5,632
of which in sterling	1986 May 21	1,640	1,845	2,536	1,348	1,224	1,631	4,116	1,504	4,745
	Aug 20	1,441	1,742	2,615	1,571	1,312	1,580	4,490	1,535	4,535
Changes in total lending in three months ended: In sterling	1986 May 21	−65	+100	−241	−35	+11	+9	+302	+20	+277
	Aug 20	−199	−105	+79	+223	−12	−62	+364	+44	−210
In other currencies†	1986 May 21	−25	+3	−2	+46	−37	+80	+31	−12	+35
	Aug 20	+5	+42	+13	−8	+10	+24	−6	+8	+37
Group detail (total outstanding) (sterling and other currencies) Retail banks	1986 May 21	770	1,330	1,476	504	800	1,348	3,161	1,094	2,475
	Aug 20	727	1,314	1,444	606	581	1,215	2,948	1,127	2,502

All banks (amounts outstanding) (sterling and other currencies)		Construction	Retail motor trades	Other retail distribution	Wholesale distribution	Hotels and catering	Air transport	Other transport	Postal services and telecommunications
Loans and advances	1986 May 21	5,441	2,209	8,180	8,163	2,606	478	2,905	397
	Aug 20	5,457	2,318	6,995	8,127	2,787	385	2,033	262
Acceptances	1986 May 21	176	130	820	1,975	53	6	46	38
	Aug 20	254	196	930	1,624	52	12	45	12
Total	1986 May 21	5,617	2,399	7,059	10,138	2,740	484	3,051	435
	Aug 20	5,711	2,514	7,925	9,751	2,839	408	2,081	274
of which in sterling	1986 May 21	5,148	2,248	6,299	5,572	2,440	275	2,154	141
	Aug 20	5,394	2,348	6,734	5,295	2,581	210	2,139	124
Changes in total lending in three months ended: In sterling	1986 May 21	+107	−123	+605	+62	+947	+29	+25	−36
	Aug 20	+136	+150	−65	−220	+141	−65	−25	−7
In other currencies†	1986 May 21	+9	+15	−35	+14	−121	−51	−20	+127
	Aug 20	−50	+25	+28	−148	−15	−20	−41	−148
Group detail (total outstanding) (sterling and other currencies) Retail banks	1986 May 21	4,018	1,506	4,043	2,885	2,021	140	1,294	71
	Aug 20	4,019	1,552	4,036	2,779	2,572	112	1,334	69

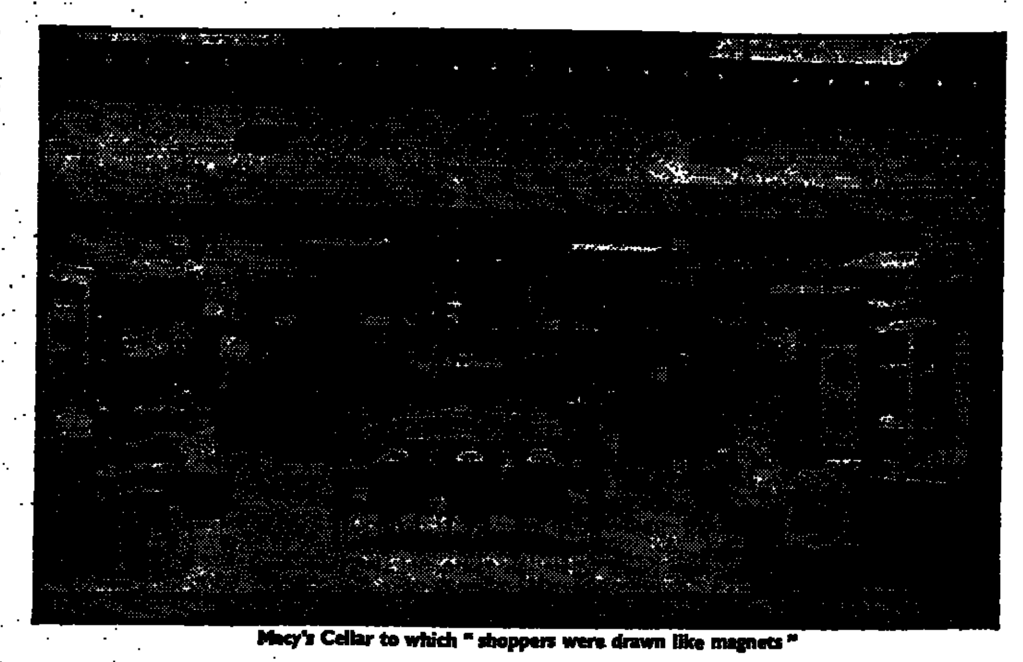
All banks (amounts outstanding) (sterling and other currencies)		Building societies§	Investment and unit trusts	Insurance companies and pension funds	Leasing companies	Other financial¶	Central and local government services	Property companies	Hiring of equipment	Other services	Bridging finance for house purchase	Other house purchase	Other advances to persons
Loans and advances	1986 May 21	2,426	2,785	2,054	6,286	16,374	1,522	7,728	789	18,630	832	21,242	21,082
	Aug 20	2,762	2,645	2,948	6,690	19,561	1,422	8,095	779	21,173	901	22,943	22,008
Acceptances	1986 May 21	—	90	31	1,003	2,507	12	12	50	485	—	—	—
	Aug 20	—	82	56	1,095	2,591	7	8	84	563	—	—	—
Total	1986 May 21	2,426	2,874	2,085	7,286	20,881	1,542	7,751	838	19,115	832	21,242	21,082
	Aug 20	2,762	2,727	3,000	7,782	22,152	1,420	8,103	863	21,735	901	22,943	22,008
of which in sterling	1986 May 21	2,426	1,311	1,257	7,126	9,951	1,158	7,196	786	10,966	832	21,219	21,072
	Aug 20	2,762	1,466	1,351	7,450	10,564	1,055	7,535	833	12,097	901	22,926	22,544
Changes in total lending in three months ended: In sterling	1986 May 21	−2	+267	+120	+898	+1,102	−361	+45	−1	+1,251	+25	+912	+949
	Aug 20	+354	+65	+294	+314	+612	−199	+332	+35	+1,199	+69	+1,707	+871
In other currencies†	1986 May 21	—	+554	+135	+32	+751	+4	+49	+2	+1,426	—	+7	−19
	Aug 20	—	−237	−113	+69	+469	−16	+11	−1	+1,279	—	−6	+28
Group detail (total outstanding) (sterling and other currencies) Retail banks	1986 May 21	227	1,209	1,085	2,110	2,105	344	3,002	322	7,385	798	12,868	16,062
	Aug 20	410	1,250	327	2,091	2,247	369	3,206	311	7,790	860	15,217	16,225

* Changes in the reporting population in mid-May accounted for some £[illegible]m (net) of the increase in total sterling lending; net lending in other currencies was unaffected.
† Adjusted for exchange rate effects.
‡ Includes lending under the DTI special scheme for domestic shipbuilding.
§ Includes sterling time deposits placed with, and holdings of sterling certificates of deposit issued by, building societies.
¶ Includes secured money placed with money brokers and gilt-edged jobbers.
‡ Figures prior to February 1986 are affected by revised treatment of lending previously recorded as "other" house purchase now included in "other" financial.
\# Comprises loans, advances and acceptances. Loans and advances include lending under the DTI special scheme for domestic shipbuilding, secured money placed with money brokers and gilt-edged jobbers and sterling time deposits placed with, and holdings of sterling certificates of deposit issued by, building societies.

MANAGEMENT

EDITED BY CHRISTOPHER LORENZ

Frank Lipsius and **Christopher Parkes** report on the efforts of leading US department stores to revitalise their retailing strategies



Macy's Cellar to which "shoppers were drawn like magnets"

Smaller and smarter - the shape of things to come

LESLIE WEXNER, whose chain of The Limited women's shops has made him an American billionaire, in 1984 tried to buy the Carter Hawley Hale department store group because, like all department stores, they were "dinosaurs," he said. Exaggerating only slightly, he explained: "On the one hand, they're being hit by low-price appliance dealers, on the other, they are so proud that they've got the biggest yarn selection in town — which is a complete waste of space."

Knowing that department stores still account for 40 per cent of all women's clothing purchases, he was willing to pay $1.1bn for the chain, which includes the stores of two venerable retailing names, Neiman Marcus and Bergdorf Goodman. One of his ideas was to turn a whole floor of a department store into the most exclusive women's health club in town, a brash suggestion from an outsider that Carter Hawley Hale did not seem to endorse, since it bought back its own shares and thwarted Wexner.

Wexner's suggestion points up both the major strengths and weaknesses of contemporary department stores, descendants of the emporia built in the mid-nineteenth century. Wexner recognised that the department stores failed to concentrate on their strengths; their customers are predominantly women, who are the traditional buyers for the whole family, and they sit on large chunks of real estate.

In fact real estate has contributed to the problems of most department stores. The large amount of space encourages them to carry every kind of commodity, as Wexner implied, but without the depth or sales expertise of speciality shops. The locations no longer have the cachet they once did, since most large stores were built at least half a century ago when cities were more important and had centres in a different place from where they are now. Those stores which are in the better locations do not make the returns they would if they were treated as straight real estate.

Even the New York emporium for the rich East Side yuppy, Bloomingdale's, has not had sales that keep pace with real estate values. According to Edward Friedman, senior vice president-retail leasing at the New York real estate company, Helmsley-Spear, "As good as Bloomingdale's is, if it had to pay what that property is really worth in fair market rent, it probably couldn't afford it."

Some department stores are reducing their size, with Abraham & Straus, a major Brooklyn institution, turning more than half its selling space into offices. A Fifth Avenue department store, B. Altman, was recently sold to a real estate development group which is expected to make three of the eight selling floors into offices. Similarly, a Canadian developer, Campeau, is offering to buy Allied Stores, a 665-store American retail chain including Garfinckel's in Washington and Brooks Brothers which has a few branches on the East Coast.

Bernard Grossman, president of Grossman-Haft Realty, real estate, described the department stores' dilemma as: "Either having to raise the bridge or lower the river. Either they must obtain more volume in the same number of square feet or they must get the same volume in fewer square feet." Department stores have sales of $130 a square foot compared with discount retailers' $157, while department stores' expenses amount to 35.3 per cent of sales compared with 27.6 per cent for the discounters.

To turn their problems to advantage, the department stores are sprucing up their sales floors as they go downsize. They may not have gone so far as to put in health spas, but they have expanded the number of restaurants. Macy's store in Herald Square, New York, has seven with different decors spread out on different floors, where 10 years ago there was just one cafeteria.

Department stores are emulating the success of speciality shops with frequent changes in style, lavish displays and small-store layouts. Stores now provide new displays monthly and expect to remodel every three to five years.

Macy's transformed its image a decade ago with its Cellar, which provided an avenue of small alcoves for the sale of housewares and food. Putting the two categories together was itself a first, but shoppers were drawn like magnets to the "street of shops," where cups, stools, aprons and microwave ovens were sold in their own settings.

The Cellar set a precedent for the subsequent reorganisation of the store, and all of Macy's 83 stores across the country, with boutique settings for a wider variety of merchandise in the increasingly fashionable and less commodity oriented areas the store continues to carry. It buys stationery, books and reproductions from the Metropolitan Museum of Art to sell on a balcony shop where there is also "I Love New York" merchandise. "Every day there is something going on," according to Macy's spokesman Judy Cohn, describing special events that include autograph signings by baseball stars, after-hours parties or the introduction of a new perfume.

Department stores are also taking more advantage of new technology by automating administrative functions and getting more staff on the floor to sell merchandise. The model for this approach is Nordstrom, a Seattle-based apparel and shoe company with 45 stores on the West Coast, where tales of extraordinary service are legendary, if not just legends. For instance, there was the salesman who paid the difference when a customer ran a little short on funds and another who dispatched a tailor to a disgruntled customer's office to give a refitting—and a new suit.

The store also provides shoeshines and live piano music to shoppers, a seemingly obvious but successful approach to retailing at the upper end of the market. With 1985 sales of almost $300 a square foot, Nordstrom's planned move east is providing a challenge to other retailers, which are beginning to increase staffs and motivation with incentives like commissions on sale. "One of the major issues of the late 1980s will be service," according to analyst William Smith of Smith Barney, Harris Upham and Co. Consumers have to be coaxed into shopping because, Smith contends, "even with a slow-inflation economy and a relatively attractive employment picture, the debt-ridden consumer may be less willing to spend."

Making the best use of automation has begun in mass retailers like J. C. Penney, which can now pinpoint products for its marketplace by decentralised buying. Instead of having regional buyers trek to New York, the company provides a video link to stores all across the country, where the local buyer can decide what is best for his or her particular store.

Differentiation occurs even within a city: one store catering to the Spanish ethnic market stocks expensive infant clothes and only one kind of jeans, while a store on the other side of town takes the cream of New York fashion.

K mart, another mass merchandiser which has improved its image in recent years by improving product quality and store appearance, is automating and decentralising by tying every cash register by satellite to a central computer for processing. This will pinpoint what people buy in different parts of the country.

Whether department stores can benefit from the same investment in high tech depends on the size of their operation and their possibilities for economies of scale. Consolidation by mergers among department stores has increased tremendously, as stronger merchandisers pick up new locations by acquiring companies that have fallen behind the times. "We've already reached the day of reckoning," according to Monroe Greenstein, an analyst at Bear, Stearns and Co. The survivors will be "good merchants, [who] really know what consumers want."

Meanwhile, Leslie Wexner has a chance to pursue his own department store ideas, having recently bought the previously independent Bendel's, which has a highly developed image of an exclusive women's department store. Bendel's is likely to be expanded across the country to add to Wexner's existing 2,500-store chain.

Frank Lipsius

Marshall Field's formula

THE GOOD old days are staging a comeback in downtown Chicago. By way of evidence a native points out refurbishment work in almost-derelict Printing House Row, a hole in the ground which will soon sprout a new Bloomingdale's store.

While not yet at fervour-pitch, there is a revivalist air about the capital of the US rust belt. Another retailing outlet exemplifies this — the Marshall Field's flagship department store.

A classic of its kind, the store squats—a 10-storey midget amid the skyscrapers—presenting a brave front to the commuters scurrying along gum-stuck State Street through swaths of litter, shrill peddlers and dazed vagrants.

Inside lie 21 acres of detached refinement where voices tend towards the reverential and prices towards the astronomic.

The Marshall Field's flagship store is the type of operation some retailing pundits describe as a "dinosaur", doomed to extinction either in the rising swamp of inner city decay or at the hands of the new breed of nimble, aggressive specialist retailers.

However, the management is convinced that the store and its 20-odd satellites will defy evolution. Heartened by the signs of new life in the city centre, it is busy with a development strategy which starts with a costly refurbishment programme and could end with expansion beyond its present bases in Chicago, Texas and Wisconsin.

Marshall Field's has come relatively late to the renovating game. It has been protected to some extent from the new influences at work in retailing by its exclusive, Harrods-like image. But the delay may be partly attributed to the recent preoccupation of BAT Industries, the chain's British owner, with the sale of almost half its US retailing interests. Announced in January, the clearance has relieved BAT of the Gimbels, Kohl's, Frederick & Nelson and Crescent chains, leaving it with Marshall Field's, Saks Fifth Avenue and three other smaller operations.

In the past few months BATUS, the group's US subsidiary, has also shifted control of its retailing from New York to Louisville, Kentucky, and installed new top management.

Investment is flowing in. Several Marshall Field's stores have already been updated, with more than $10m being spent on each. A $55m redevelopment starts in State Street after Christmas, and the round will begin again when that is finished in 1992.

Store renovation has so far proved to have increased sales in the first year after completion by 15 to 18 per cent, according to Kassie Davis, vice-president, marketing. This may partly be explained by the hypnotic effect of titillation and novelty on US consumers, but the group is underpinning these advances with innovations more subtle, more durable than simple cosmetics.

Marshall Field's has long prospered by adhering strictly to its corporate motto: "Give the lady what she wants." But who is the lady, and what does she really want?

Davis has recently completed a thorough dissection of the Chicago citizen based on a survey of Chicago lifestyles carried out by the Chicago Tribune. "Our customers have been segmented by price preferences, fashion attitudes and lifestyle, rather than by simple demographics," she says.

Intimate

Thus it is that Marshall Field's knows that 30 per cent of women in the Chicago area prefer classic fashions, 27 per cent wait until new styles are well accepted before taking the plunge themselves and 19 per cent buy when their clothes are worn out.

Chicago man emerges as even more conservative. More than 44 per cent prefer classic clothes and 36 per cent are strictly replacement buyers.

The company even claims to know the type of spot its target customers will choose for a picnic, how they will get there, what they will wear, eat, drink and sit on.

Working back from this intimate analysis, Davis has prepared cross-tabulated matrices and boldly struck out a broad sweep of customers who shall not be catered for and merchandise which has no place in Marshall Field's stores.

There are other factors at work, however. In common with other department store operators, Marshall Field's has pulled back from direct involvement in slower-moving goods where the specialists are strongest. At State Street, for example, the electrical and jewellery departments are run by concessionaires as shops within shops.

Others have cleared them out completely, but as long as the Marshall Field's lady wants a new kitchen range, she and the ironmongery will be accommodated.

She will also be given the service she demands. The store's formula for merchandising is matched by a less complex, but equally stringent set of rules for selling. Sales assistants are now under orders to follow a simple code. On spotting a shopper they must: stop what they are doing, greet, assist and thank the customer.

Melvin Rosen, senior vice-president in charge of regional stores, says this refinement of the floor-walkers' job depends mainly on the elimination of all the other tasks—stock work, paper shuffling, hanging dresses on racks—which have hitherto preoccupied and diverted them from the job of looking after the public.

Since it is no longer diverted by the Gimbels clearance sale, the BATUS retailing management is now able to concentrate on underpinning and expanding its remaining interests. Patrick Sheehy, group chairman, said earlier this year that BAT was interested only in retailers which had potential for organic growth.

By extension, Marshall Field's must fall into this category. But where, when and how does it expand?

The store is essentially a conservative mid-West specialist which knows its market and is set on knowing it better. It has its four stores in Wisconsin where it aims to imitate its Illinois operation and become the dominant retailer in the region. With perhaps lesser medium-term ambitions in Texas, it has moved successfully into the state and recently opened a new store in San Antonio.

Opportunities elsewhere are limited. Regional tastes and preferences in the US differ widely.

Davis says research has so far uncovered only two potential development areas. Although the targets are secret, it is understood that Columbus, Ohio will shortly be named in the chain's expansion plans. The temperament of the people closely matches that of Chicagoans; the climate is similar, and like the windy city, it is emerging from the industrial holocaust as a rapidly expanding centre for commerce and service industries.

Christopher Parkes

THE PROPERTY MARKET BY PAUL CHEESERIGHT

CITY OF LONDON

Norwich Union behind a facade

THE CITY of London yesterday gave itself planning permission for a new office development, geared to the demand of financial institutions for large dealing rooms.

Norwich Union, on four City freehold properties in New Broad Street, just to the east of Finsbury Circus, will spend £39m on new offices to be constructed behind existing facades. The architects, T. P. Bennett, are planning 165,000 sq ft of office and 8,000 sq ft of retail space.

The properties are Orient House, Friars House, Bilbao House and New Broad Street House. But the development is designed as two buildings. There will be a new Orient House and a new New Broad Street House which will absorb Friars and Bilbao.

Demand by the financial institutions for large open spaces to facilitate dealing is being met by an exceptional 12-metre stand between columns.

The development thus fits into the pattern of use established by other Norwich Union ventures in this area of the City—the building let to Morgan Grenfell at Finsbury Circus and the offices being prepared with London and Edinburgh Trust for Merill Lynch in nearby Ropemaker Street.

The City of London signalled its intention to redevelop at New Broad Street last December. In February, Norwich Union won a tender for a 125 years lease. Its £39m commitment includes not only the re-development costs but also a premium payment to the City of London which wil take an unspecified percentage of the rental income.

Within the total Norwich Union portfolio, New Broad Street is important but not overwhelming. Its largest single City commitment is £75m for Ropemaker Street.

And this year the insurance group anticipates that, of £700m available for investment this year, £240m will be spent on UK property. In 1985 its property spending was £185m.

Certainly Norwich Union is one of the most active of the insurance companies in the sector. But its increase in property spending is part of a wider movement as insurance company premium incomes increases.

The latest Flecther King Institutional Investment Bulletin shows that insurance company property investment rose sharply in the 1986 second quarter to a net £311m from £207m in the first quarter. For the whole of 1985 net spending was £815m.

Save for its internal dealings with the City of London, Norwich Union spending on New Broad Street will not start until next year. By then it should have the full planning permission. What it received yesterday was outline planning permission. Over coming weeks it will be negotiating with the City authorities.

So far it has had a relatively smooth ride, although the buildings are in the City of London conservation area. Mr Nicholas Ridley, the Environment Secretary, did not use his power to examine the planning application. And, as Mr Michael Cassidy, chairman of the City's planning and communications committee, noted: "New Broad Street is one of a string of developments behind facades"

By contrast, both the City authorities and Guardian Royal Exchange are waiting to see whether Mr Ridley will call in the plans for changes at the historically more significant Royal Exchange building, now the home of the London International Financial Futures Exchange.

Guardian Royal Exchange has a £20m plan to remove the existing third floor of the building, replace it and add on a new fourth floor.

Inside the City Corporation there have been arguments about whether the building, Grade One listed for its architectural and historical interest, should be touched at all. The City's planning committee overrode the reservations of the City Architect by 18 votes to one.

The Royal Exchange building, despite major alterations in 1880, excites what Mr Cassidy calls the argument between "pure conservationists and people who believe the City should get up to date."

CSFB moves westwards

CREDIT SUISSE First Boston, waiting for its move east to Canary Wharf in London's Docklands in 1989, is taking a short term lease from Abbey National on 11,700 sq ft at United Kingdom House in Oxford Street.

The move westwards is presented as reflecting a lack of suitable space—the need for large dealing rooms by financial institutions—in the City of London. The deal was stitched together by Edward Erdman for Abbey National and Savills for Credit Suisse First Boston.

● The Sedgwick Group wants to extend its headquarters at Aldgate, just over the eastern boundary of the City of London, with an additional 185,000 sq ft of offices. Landers, the chartered surveyors has made an application to the borough of Tower Hamlets for planning permission.

The existing Sedgwick Centre, completed last year, was designed by Fitzroy Robinson, but the architects for the six-floor extension are Frederick Gibberd.

● Provident Mutual Life Assurance has spent £9.4m on three distribution warehouses at Sunbury, Middlesex. They were bought from Electricity Supply Nominees and POSTEL. Current annual rental income is £830,000, from ICI and *Job's Dairy*. Fuller Peiser and Bernard Thorpe acted for the sellers, King for Provident Mutual Assurance.

CHATHAM

New lease of life from light industry

FROM the entrance to Chatham Maritime it is now possible to get a totally different view of the Medway estuary from that which existed as recently as two years ago.

Two million sq ft of what used to be the dockyard complex, some 800 buildings, have been demolished, giving a view across the river little seen since HMS Victory was being built on the site two centuries ago.

The few remaining buildings are either architecturally protected or, with a little spending on refitting, can be made ready for immediate letting. The Overseas Development Administration, for instance, has taken 300,000 sq ft in blocks that once housed sailers.

Chatham maritime is one of the most important commercial developments in southern England outside London. Some 560 estuarial acres are being developed in such a way that the whole character of the area is being changed.

"This will no longer be a site for heavy industry," says Mr Ian Parker, English Estates' project director, who is in charge of the operation. "We are anxious over the next 10 years to create an environment which will cater for offices, high-technology concerns, light component industry and research and development.

"There is no place in this strategy for heavy industry. What we are looking for are firms that will bring in 21st century industry.

"We want to put 5,000 jobs on this site, which has one of the best commercial positions in Britain, halfway between London and the continent. Those jobs must be the best available."

English Estates, the Government's development and marketing arm in the English regions, was called on to redevelop Chatham in 1984 after the Ministry of Defence closed the dockyard, adding to the problems of an area that had already been hit by closures in the cement, paper and oil refining industries.

"We found an absolute hotchpotch of buildings on the site," remembers Mr Tony Pender, the corporation's Gateshead-based chief executive. "Most of them were unsuitable for the private sector. There was also an aged and extremely infirm infrastructure which had to be modernised as a first priority.

"We changed the name to Chatham Maritime to get away from the overwhelming feeling of pervasiveness about the dockyard in the area. The town relied on the dockyard so heavily that it became insular, always looking inward. The loss of 7,000 jobs was a terrible shock and so we had to do something about creating a new image as well as a new industrial heart for the place."

English Estates is pumping £10m in on the first stage, for land purchase, site clearance and a new arterial road, which is just taking shape. Mr Pender expects this to create a leverage factor of about 30:1, leading to private investment of over £300m.

It had been expected last year that the redevelopment of Chatham would have cost over £25m, but changed circumstances, including an enterprise zone on the site, have reduced the corporation's direct commitment.

"We are now creating the best greenfield site in southern England on which we will be able to build Rolls-Royce offices at £6.50 a sq ft, compared with around £50 in the City. And we are only 25 miles away, or 40 minutes by train.

"Fund managers have been beating a path to our door to see what we have to offer."

Some idea of what Chatham Maritime will offer can be seen from the elegant new buildings just before the former entrance to the old dockyard. There, Lloyds of London has a 200,000 sq ft centre employing over 1,000 people. The car park is full and the local economy has ben given a welcome infusion from the new arrivals.

A variety of housing has been allocated on EE's 350-acre site (the other 210 acres are occupied by Chatham Historic Dockyard Trust and the Medway Chatham Dock Company) and the enclosed water of two or three docks will be used for leisure activities. The former dry docks will be turned into a giant marina capable of housing 900 berths accompanied by shops, restaurants, pubs and, possibly, an hotel and conference centre.

The Government has further helped the area by designating part of the site as an extension of the Medway enterprise zone, thereby offering 100 per cent capital allowances, simplified planning procedures and a 10-year rates holiday from designation day next Friday. Alongside the zone will be a business park.

"We are seeking to create a new community for the Medway towns," says Mr Parker, "a place to live and work. The potential is enormous. The return for anyone coming in should be equally great."

● In a further but smaller dock development, Evas Investment is seeking tenders from developers for the redevelopment of St Andrews Dock at Hull on Humberside, owned by Associated British Ports.

Evas plans a marina village, a retail and a light industrial park and an hotel on a 50-acre site alongside a dual carriageway which links to the M62. Associated British Ports has made an outline planning application.

ANTHONY MORETON

Company Notices

FIDELITY PACIFIC FUND S.A.

Incorporated under the laws of Panama

Notice of Annual General Meeting of Shareholders October 16, 1986

Please take notice that the Annual General Meeting of Shareholders of Fidelity Pacific Fund S.A. (the "Corporation") will take place at 2:00 p.m. at the Corporation's principal office, Pembroke Hall, Pembroke, Bermuda, on October 16, 1986.

The following matters are on the agenda for this meeting:

1. Election of seven (7) Directors, specifically the reelection of all present Directors, Messrs. Edward C. Johnson 3d, William L. Byrnes, Charles A. Fraser, Hisashi Kurokawa, John M.S. Patton, Harry G.A. Seggerman and H.F. Van den Hoven.
2. Review of the balance sheet and profit and loss statement for the fiscal year ended May 31, 1986.
3. Ratification of the actions taken by the Directors since the previous Annual General Meeting.
4. Ratification of the actions taken by the Investment Manager since the previous Annual General Meeting.
5. Adoption of the following amendment to the Charter of the Fund by the insertion of the following sentence at the end of the third paragraph of article fourth of the Charter: "Payment of the purchase price for shares shall be made no later than ten days after the valuation date which pursuant to the procedures adopted by the Board of Directors fixes the purchase price."
6. Adoption of the following amendment to the Charter of the Fund by the insertion of the following sentence at the end of the third paragraph of article twenty-second of the Charter: "Payment of redemption proceeds for shares shall be made within ten days after the valuation date which pursuant to the procedures adopted by the Board of Directors fixes the amount of redemption obligation or, if later, within ten days after receipt by the Corporation of the investor's share certificates."
7. Consideration of such other business as may properly come before the meeting.

Holders of registered shares may vote by proxy by mailing a form of registered shareholder's proxy obtained from the Corporation's principal office in Pembroke, Bermuda, or from the companies listed below, to the corporation at the following address:

Fidelity Pacific Fund S.A.
P.O. Box 670
Hamilton 5, Bermuda

Holders of bearer shares may vote by proxy by mailing a form of certificate of deposit and a form of bearer shareholder's proxy obtained from the Corporation's principal office in Pembroke, Bermuda, or from the companies listed below, to the Corporation at P.O. Box 670, Hamilton 5, Bermuda. Alternatively, holders of bearer shares wishing to exercise their rights personally at the meeting may deposit with the Corporation the certificates for their shares or a certificate of deposit therefor prior to the meeting.

All proxies (and certificates of deposit issued to bearer shareholders) must be received by the Corporation not later than 2:00 p.m. on October 16, 1986, in order to be effective at the meeting.

By order of the Board of Directors
Charles T. M. Collis
Secretary

The Bank of Bermuda Limited
Front Street
Hamilton, Bermuda

Fidelity International Management Holdings Limited
25 Lovat Lane
London EC3R, 8LL, England

Kredietbank S.A. Luxembourgeoise
43, boulevard Royal
Luxembourg

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Arts Week

F	S	Su	M	Tu	W	Th
3	4	5	6	7	8	9

Opera and Ballet

LONDON

English National Opera, Coliseum: The new production of The Mikado by Jonathan Miller aims to divest G & S of their Japanese top layer and explore the quintessential Englishness beneath. Eric Idle makes Ko-Ko his first opera-house appearance; ENO regulars include Lesley Garrett, Felicity Palmer and Richard Van Allan, and the conductor is Peter Robinson. Revivals include another Miller production, The Marriage of Figaro, and the ENO's irritatingly self-conscious Madam Butterfly with Rosamund Illing and David Rendall.

Royal Opera House, Covent Garden: The Royal Ballet returns on Wednesday and Thursday with a triple bill featuring David Bintley's recent Galanteries, receiving its London premiere.

Sadler's Wells, Rosebery Avenue: The Central Ballet of China plays all week with a fascinating collection of ballets and some fine dancers.

PARIS

Don Carlos conducted by Georges Prêtre and produced in its original version by Marco Arturo Marelli who, by choosing a sober decor, allows full play to the opera's dreams. Paris Opéra (4266 5022).

Ariadne auf Naxos conducted by Lothar Zagrosek with The Prima Donna Ariadne sung by Montserrat Caballe/Helene Garetti. Opéra Comique (4296 0611).

China in the Autumn Festival Programme: Spectacles dans une Maison de Thé. Théâtre National de Chaillot (4727 8115).

The Bolshoi Ballet and the Bolshoi Philharmonic Orchestra present three different programmes: The Golden Age. Raymonda, Giselle, and Mozart and Salieri at the Palais des Congrès, Porte Maillot until Oct 27. (4758 1494).

WEST GERMANY

Berlin, Deutsche Oper: 25th anniversary season. Fidelio, produced by Jean Pierre Ponnelle, stars Richard Versalle, Lisbeth Balslev, Barbara Vogel and Gerd Feldhoff. *Rigoletto's* new cast stars Angela Denning, Ryszard Karczykowski and Ingvar Wixell. Also in the repertory are Orpheus and Euridice and Gundula Janowitz giving a lieder recital.

Hamburg, Staatsoper: La Bohème, sung in Italian, features Rachel Joselson, Guiliano Cianella and Kurt Moll. Lohengrin, conducted by Guiseppe Patane, stars Gabriele Schnaut, Nadine Secunde, Rene Kollo and Harald Stamm. La clemenza di Tito stars Judith Beckmann, Doris Soffel, Stafford Dean and Werner Hollweg; Il Barbiere di Siviglia rounds off the week.

ITALY

Milan: Teatro Nuovo: the Scala Ballet Company with four ballets: "Concerto Barocco" (music by Bach and choreography by George Balanchine), l'Après-Midi d'un Faune" (Débussy/Robbins), "Nursery Songs" (E. von Dohnany/Laszlo Seregi) and "Time out of Mind" (P. Creston/Brian Macdonald). Fri, Sat, Sun. (41 82 26).

Florence: Teatro Communale: Paris Opera production of Cherubini's Medea (sung in the original French) conducted by Bruno Bartoletti. Shirley Verrett sings the title role (alternating with Dunja Vejzovic), Ernesto Veronelli (Neil Wilson) as Jason, Patrizia Pace as Dirce, Nicola Ghiuselev as Creon and Margarita Zimmerman as Neris. The opera is directed by Liliana Cavani. Sat, Sun.

Bologna: Teatro Communale: Tosca by Puccini, with Silvano Carroli, Raina Kabaivanska, Nicola Martinucci/Gianfranco Cecchele, conducted by Romano Gandolfi and directed by Giancarlo Cobelli. Sun, Tue (22 29 99).

NETHERLANDS

Amsterdam, Muziektheatre: The Netherlands Opera presents Verdi's Falstaff directed by Liviu Ciulei with The Hague Philharmonic conducted by Hans Vonk: Timothy Noble, John Brecheler, Ashley Putnam and Anne Howells star (Tue). A double bill with Netherlands opera; Ithaka, a new opera by Otto Ketting, and the National Ballet in Toer van Schayk's Like Orpheus (Wed). The National Ballet with Hans van Manen's Opening, the Collective Symphony by Van Dantzig, Van Manen and Van Schayk, and Van Schayk's Seventh Symphony (Thur). (255 455).

VIENNA

Staatsoper: Rigoletto conducted by Boncompagni with Devia, Yachmi, Winsaner, McNair (Fri, Tue); L'Elisir d'Amore conducted by Weikert with McLaughlin, Sima, Hadley, Pola, von Kannen (Sat, Thur); Turandot conducted by Segerstam with Marton, Ghazarian, Kmentt, Polgar, Ciannella, Sramek (Sun); The Kabuki: ballet by Bejart. Guest performance of the Tokyo Ballet (Mon); Der Fliegende Holländer conducted by Schneider with Mekler, Gonda, Hoelle, Waechter, Morris (Wed).

NEW YORK

New York City Opera (NY State Theater): The week features Anthony Davis's X (The Life and Times of Malcolm X) with libretto by Thulani Davis and story by Christopher Davis in Rhoda Davis's production conducted by Christopher Keene; also Don Quichotte, conducted by Mario Bernardi and directed by John Copley, and Werther, conducted by Sergiu Comissiona in Lofti Mansouri's production. Lincoln Center (870 5600).

Merce Cunningham & John Cage (Brookyln Academy of Music): Opening the year's Next Wave Festival, two avant gardists from before the expression started collaborate on Roaratorio, based on Joyce's Finnegans Wake. Ends Oct 12. (718 636 4100).

CHICAGO

Lyric Opera: Christof Perick conducts Pier Luigi Pizzi's production of Parsifal, a Lyric Opera premiere, with Tatiana Troyanos, Jon Vickers and Hans Sotin. The Magic Flute features Francisco Araiza as Tamino and Judith Biegen as Pamina, conducted by Leonard Slatkin in August Everding's production (Mon, Thur). Michael Tilson Thomas conducts John Copley's production of La Bohème with Katia Ricciarelli and Luis Lima (Tue). (332 2244).

TOKYO

Covent Garden Royal Opera Japan tour continues with John Copley production of Cosi fan tutte with Kiri te Kanawa, Anne Sofie von Otter, Walter Berry and John Aler. Bunka Kaikan (Mon, Wed). (723 2356).

Kibbutz Dance Company: Dance-theatre company from Israel directed by Yehudit Arnon. Nerima Bunka Centre, Small Hall (Mon); ABC Hall, near Shiba Park (Wed). (334 3710; 237 9990).

Music

WASHINGTON

National Symphony (Concert Hall): *Guenther Herbig* conducting. Weber, Schubert, Beethoven (Thur). Kennedy Center (254 3776).

CHICAGO

Chicago Symphony (Orchestral Hall): Sir Georg Solti conducting, Jennie Wagner violin, Albert Igolnikov violin. Mendelssohn, Bach, Brahms (Thur). (435 8111).

NEW YORK

New York Philharmonic (Avery Fisher Hall): Luciano Berio conducting, Katia and Marielle Labeque duo-pianos, Aldo Bennici violin. Berio, Haydn (Wed, Thur). Lincoln Center (874 2424).

Basically Bach Festival: The eighth festival covers seven events over the month, centred round performances of Musica Sacra, directed by Richard Westenburg, and ending with a concert of Bach and Handel at Avery Fisher Hall Oct 22nd. Central Presbyterian Church (64th & Park). (873 9546).

Merkin Hall (Goodman House): Washington Music Ensemble. Alan Mandal artistic director and piano. Glick, Louis, Coulthard, Hartwell, Prevost, Schaeffer, Vivier (Mon); Prism Chamber Ensemble with the Gregg Smith Singers. Robert Black conducting. All-Louise Talma programme, including world premiere (Tue); D'Anna Fortunato *mezzo-soprano* recital with David Deveau piano. Rossini, Liszt-Rossini, Liszt, Schumann, Schubert, Liszt-Schubert (Thur). 67th w. of Broadway. (362 8719).

Sistine Chapel Choir (Avery Fisher Hall): Mgr. Domenico Bartolucci director. First US performance (Mon). Lincoln Center (874 6770).

TOKYO

Tokyo Metropolitan Symphony Orchestra, conductor Zdenek Kosler, Ingrid Haebler piano: all-Mozart programme. Tokyo Bunka Kaikan (Thur). (832 0727).

NHK Symphony Orchestra, conductor Herbert Blomstedt: Schubert, Bruckner. NKH Hall (Wed, Thur). (465 1780).

The State Moscow Chamber Choir, conductor Vladimir Minim, Evegeny Nesterenko, bass. All-Russian programme. Hitomi Memorial Hall, Showa Women's College, Sangenjaya (Thur). (235 1661).

Vienna Symphoniker, conductor Kurt Voss: Schubert, Haydn, Johann Strauss. Nerima Bunk Centre (Wed). (403 1290).

BRUSSELS

Liège Philharmonic Orchestra conducted by Pierre Bartholomee: Mozart, Beethoven. Palais des Beaux Arts (512 50 45). (Tue).

Walter Boeykens, clarinet and Jean Claude Vanden Eyden, piano: Chopin, Brahms. Auditorium Hamoir (374 1981). (Wed).

NETHERLANDS

Amsterdam, Concertgebouw: Netherlands Chamber Choir and soloists conducted by Sigiswalk Kuijken: Mozart (Tue). (71 83 45).

Rotterdam, De Doelen: Recital Hall: The Amsterdam Baroque Orchestra under Ton Koopman, with Wilbert Hazelzet: J.S. Bach, CPE Bach (Mon). Caecilia Consort with Emmy Verhey, violin: Mendelssohn; Schubert (Tue). (414 29 11).

Utrecht, Vredenburg: The Netherlands Chamber Choir, conductor Sigiswald Kuijken: Mozart (Wed). Recital Hall: French chanson from Francesca Solleville (Thur). (31 45 44).

Groningen, Oosterpoort: Dmitri Sitkovetsky, violin, Bella Davidovich, piano: Mendelssohn, Grieg, Mozart, Ravel (Wed). (13 10 44).

Maastricht, Schouwburg: Orlando Quartet (Wed). (21 33 00).

Nijmegen, Vereeniging: I Musici di Roma Chamber Ensemble: Mozart, Respighi, Martin, Vivaldi (Mon). Guitar recital by Manuel Barroeco (Wed). (22 11 00).

LONDON

Moscow Philharmonic Orchestra, conductor Dmitri Katayenko, Nikolai Petrov piano: Tchaikovsky, Prokofiev, Rachmaninov. Royal Festival Hall (Mon). (928 3191).

The Fires of London, conductor Peter Maxwell Davies, Jill Gomez soprano, Stephen Pruslin, piano: Stravinsky, Philip Grange, Maxwell Davies, Berg, Schnittke. Queen Elizabeth Hall (Mon). (928 3191).

London Philharmonic Orchestra, conductor Bernard Haitink: Tchaikovsky, Vaughan Williams. Royal Festival Hall (Tue).

Medici String Quartet and Friends: Schubert, Mendelssohn. Elizabeth Hall (Tue).

Philharmonia Orchestra, conductor Lutoslawski, Jorge Bolet piano: Beethoven, Lutoslawski. Royal Festival Hall (Wed).

English Chamber Orchestra, conductor Raymond Leppard, Frank Peter Zimmermann violin: Mozart, Prokofiev. Elizabeth Hall (Wed).

PARIS

Ensemble Intercontemporain conducted by Pierre Boulez: Franco Donatoni, Heinz Holliger, Pierre Boulez (Mon). Théâtre du Rondpoint (4256 7080).

Orchestre de Paris conducted by Daniel *Barenboim. John Tomlinson,* bass, Albert Tetard, cello, Jacques Cazauran, counterbass, with the Orchestre de Paris' Male Choir conducted by Arthur Oldham: Mozart, Schumann, Shostakovitch (Wed). Salle Pleyel (4561 0630).

Festival d'Art Sacre: Radio France Choir and Nouvel Orchestre Philharmonique conducted by Hans Drewans: Anton Webern, Edison Denisov, Olivier Messiaen (Thur). Saint-Louis-des-Invalides Church (4277 1990).

VIENNA

Dorit Pavlkovsky, flute, Margit Urbanecz-Vig, baroque violin, Wolfgang Gluexam, organ. Händel, Bach-Karlskirche. (Fri).

Vienna Philharmonic Orchestra conducted by Leonard Bernstein: Sibelius, Shostakovitch. Musikverein (65 81 90). (Matinees, Sat, Sun).

Toulouse Orchestra conducted by Michael Plasson: Ravel, Roussel, Saint-Saens. Musikverein. (Sat).

The Chamber Orchestra of Europe with Mischa Maisky, cello: Haydn. Konzerthaus Mozart Saal. (Sat).

ITALY

Milan: Teatro alla Scala: Gary Bertini *conducts Mahler's 9th Symphony* (Fri). On Monday, a recital by the soprano Barbara Hendricks accompanied by pianist Youri Egorov; Wed and Thurs, flautist Roberto Fabbriciani and tenor Keith Lewis; Britten, Schoenberg, Jolivet's Stravinsky. (80 91 26).

Reggio Emilia: Teatro Municipale Valle: Radio Budapest Orchestra conducted by Gyorgy Lehel in Liszt's oratorio The Legend of Saint Elisabeth. Sunday (4 03 46).

Rome: Auditorium in Via della Conciliazione: two concerts by Budapest Radio Orchestra and Choir: on Friday, Gyorgy Lehel conducts the soprano Maria Zadori in Liszt's symphonic poems Orpheus and Tasso, and Dante-Symphonie and on Saturday, *Liszt's The Legend of Saint* Elisabeth, for soloists, choir, organ and orchestra. (654 1044); Palazzo Taverna: (Via Monte Giordano 6): Nuova Consonanza – Mariolina de Robertis and Angelo Persichilli in a programme of contemporary music (Schiaffini, Trythall, Earl Brown, Pennisi, Berio and Petrassi). Thur. (654 1365).

Theatre

TOKYO

Marcel Marceau: U-Port, Kani Hoken Hall, Gotanda (Thur). (7 23 23 56).

Super Kabuki: devised by Kabuki star Ennosuke and based on the legendary account of the founding of Japan. Yamato Takeru has nearly 200 characters, breathtaking costumes and many Kabuki tricks. Shimbashi Embujo Theatre (541 2211).

CHICAGO

Pump Boys and Dinettes (Apollo Center): Facetious look at country music and down-home country life with a good beat and some memorable songs, especially one played on kitchen utensils has proved to be a durable Chicago hit. (935 6100).

Galileo (Goodman): Brian Dennehy takes the title role in Bertolt Brecht's exploration of intellectual honesty in a repressive environment under the direction of Robert Fall, who has just taken over as the Goodman's artistic director. Ends Nov 1. (443 3800).

NEW YORK

Cats (Winter Garden): Still a sellout, Trevor Nunn's production of T.S. Eliot's children's poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and overblown idea of theatricality. (239 6262).

42nd Street (Majestic): An immodest celebration of the heyday of Broadway in the '30s incorporates gems from the original film like Shuffle Off To Buffalo with the appropriately brash and leggy hoofing by a large chorus line. (977 9020).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

La Cage aux Folles (Palace): With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages, barely, to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (757 2626).

I'm Not Rappaport (Booth): The Tony's best play of 1986 won on the strength of its word-of-mouth popularity for the two oldsters on Central Park benches who bicker uproariously about life past, present and future, with a funny plot to match. (239 6200).

Big River (O'Neill): Roger Miller's music rescues this sedentary version of Huck Finn's adventures down the Mississippi, which walked off with many 1985 Tony awards almost by default. (246 0220).

The Mystery of Edwin Drood (Imperial): Rupert Holme's Tony-winning resurrection of the unfinished Dickens classic is an ingenious musical with music-hall tunes where the audience picks an ending. (239 6200).

NETHERLANDS

Scheveningen, Circus Theatre. The New Vic Theatre Company with Chaucer's Canterbury Tales (Wed). (55 88 00).

LONDON

La Cage Aux Folles (Palladium): George Hearn a welcome star alongside Denis Quilley in the transvestite show for all the family. Weak second act, less than vintage Jerry Herman score. The show has not travelled well from Broadway. (437 7373 (CC) 734 8961).

Dalliance (Lyttelton): Tom Stoppard's new version of Schnitzler's Liebelei is a crushing disappointment only *partly redeemed by Brenda Blethyn* as the ruined working girl. A theatricalised travesty of the work adds to the confusion of middle-aged actors playing boyish dragoons in Peter Wood's numbingly respectable production. (928 2252).

Lend Me A Tenor (Globe): Fresh and inventive operatic farce by new American author Ken Ludwig set in Cleveland, Ohio in 1934. Dennis Lawson and Jan Francis lead an energetic company in mistaken identity romp, while Verdi's Otello carries on regardless. (437 1592)

When We Are Married (Whitehall): Matchless comic playing from an all star cast in Priestley's comic warhorse about silver wedding anniversaries undermined by an inconvenient revelation. Bill Fraser is a drunken Falstaffian photographer and the couples are led by Timothy West and Prunella Scales. The 1930 theatre has been beautifully renovated. (930 7765).

Noises Off (Savoy): The funniest play for years in London, now with an improved third act. Michael Blakemore's brilliant direction of backstage shenanigans on tour with a third-rate farce is a key factor. (836 8888).

Starlight Express (Apollo Victoria): Andrew Lloyd Webber's rollerskating folly has 10 minutes of Spielberg movie magic, an exciting first half and a dwindling reliance on indiscriminate rushing around. Disneyland, Star Wars and Cats are all influences. Pastiche score nods towards rock, country and hot gospel. No child is known to have asked for his money back. (834 6184).

42nd Street (Drury Lane): No British equivalent has been found for New York's Jerry Orbach, but David Merrick's tap-dancing extravaganza has been rapturously received. (836 8108).

Continued on Page 25

THE ARTS

Jane Eyre/Birmingham Rep

B. A. Young

Jane Eyre is the flavour of the season. Hardly has the Chichester production (adapted by Peter Coe) left the stage, when a new version (adapted by Fay Weldon) appears at Birmingham, played by their Young Company.

The Chichester play presented the bones of the novel completely enough. The Birmingham play presents a little less, but much more of the soul. Ms Weldon believes that Jane's relation with Rochester was "profoundly erotic," that Jane was in love with him even when current social rules kept her from showing it.

Peter Coe opened with Jane's arrival at St John Rivers's house and worked backward, partly through narrative. Ms Weldon opens with a scene in the garden at Thornfield, where Jane is painting, Mrs Fairfax is telling her about the absent Rochester, and Jane's pupil Adele, Rochester' illegitimate daughter, is skipping, an amusement that takes up most of her waking hours.

Adele is Ms Weldon's own invention. After all, a governess must have someone to govern, and the two have some good talks showing Jane's principles in action, such as "What is not conventional is not necessarily wrong." Charlotte Henry, who plays Adele, also plays Jane at Mrs Reid's and at Lowood, crossing instantly from one part to the other before our eyes. Jane (Tam Hoskyns) can also change her persona without outside help. She shows in a sensitive performance her development from restraint to acceptance as her true character gets a better chance to reveal itself.

The main events of the novel, the events that we all remember, are cleverly shown on a three-dimensional set that consists mostly of a skeleton framework and a variety of flats, designed by Ian McNeil. The Young Company, the Birmingham Rep's resident repertory players, are directed by Derek Nicholls. They are indeed young (Miss Hoskyns is giving her first professional performance) and play with immense enthusiasm. David Lansbury's Rochester is a truly Byronic figure, handsome (until his accident), active and witty, and I like Mark Lockyer's proto-fascist Brocklehurst, Julia Lane's invalid Helen and glamorous Blanche Ingram, Gareth Tudor-Price as St John Rivers. Indeed, I liked all the company, two of whom are black but play Englishwomen as if they were Yorkshire-bred.

Voix Sainte Lucie

Michael Coveney

The English rather than the Creole voice of St Lucia opens the Commonwealth Institute's theatrical programme in the ongoing Caribbean Focus '86 festival. That beautiful island's National Theatre (as a tourist I only knew about the steel bands) brings two plays by the Walcott brothers: Derek Walcott's *Ti-Jean and his Brothers* which had two performances; Roderick Walcott's *Banjo Man*, title role played by the Mayor of Castries, plays tonight and Saturday. Both pieces date from the late 1950s.

The Institute's theatre in Kensington High Street has an unkind acoustic and audibility was not helped by the exotic masks worn in the folk tale of how commonsensical third son Ti-Jean overcomes the white planter (disguised in "white face") and devil bogeyman after his two elder brothers have been ritually destroyed by prancing demons. The search for success on St Lucia means pursuit of the double chimera of money and power.

Walcott's play is laid out like a primitivist canvas in bright primary colours, the palm tree painted setting much more beguiling than the grim reality of the Castries shanty town. The minute each son leaves his wailing mother, he encounters a chorus of insects.

These insects, in anthropomorphous pantomime shape, include a firefly, a bullfrog, a cricket and a strange bird. A wise man with a gnarled stick (another "white face," same actor) engages each brother in dispute before passing him on to the white employer and the devil's brimstone. Only Ti-Jean offers any resistance, turning an instruction to count all the canes in the field to an incendiary call to arms. The landowner's field and house are burned. A visitor certainly senses something of this submerged Rastafarian righteousness on the island. The wonder is that the surface is so placid, given the economic plight of the people.

Unlike the landowner's house, the performance does not really catch fire, but the amateur cast—teachers, civil servants, policemen, and a bank clerk—give a creditably engaging performance. Michael Felix as the bookish second son and Ruth Phillips as a *lissom*, exotically chirruping bird are notable.

Maya Weltman/Festival Hall

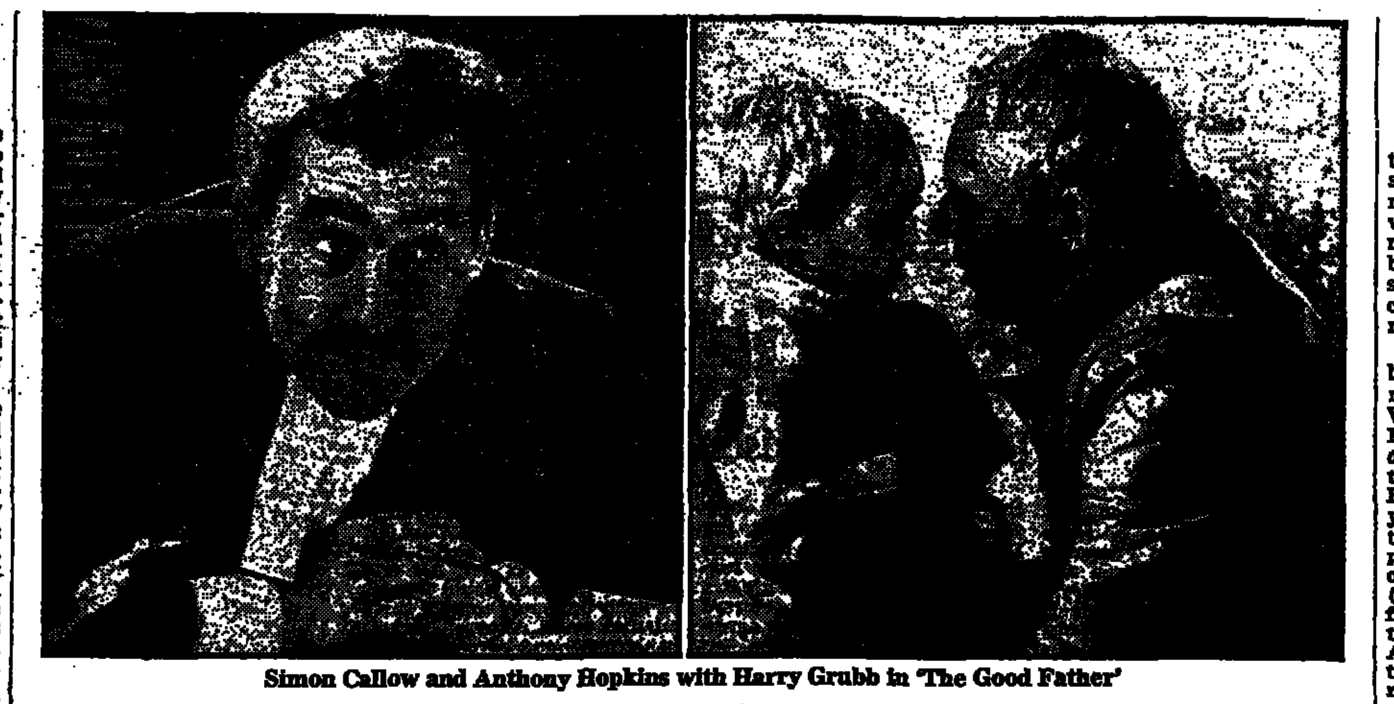
Dominic Gill

Maya Weltman is the 14-year-old pianist from Israel who made her orchestral debut with the London Philharmonic two years ago. Reports of that concert told of a brilliant but not especially characterful young talent. If the reports are true, then Miss Weltman has grown up fast. Her performance on Wednesday of Beethoven's C major concerto with the LPO under Tennstedt at the Festival Hall was in some ways, stylistically and interpretatively, a "young" performance: but it was also among the most pointed, most characterful, and on several pages the most exciting accounts of the concerto I have heard in years.

Her technique is strong and fluent: the sonority is as vibrant as a pianist's twice her age. Young prodigies' playing of the early Beethoven repertory too often sounds learned by rote; Miss Weltman's playing, on the contrary, was full of subtle (and especially rhythmic) nuance. Few performers catch the unexpected *sforzandi* in the first movement with such exhilaration and precision. The Largo's long line was beautifully sustained, without a trace of mannerism, and with great eloquence. I found some parts of her finale positively electrifying—full of light and brightness, and glittering accents. The promise is phenomenal: I'd wager that Miss Weltman one day could be a very important musician indeed—if she is not pushed too far, too hard, too soon.

Allied Arab Bank to sponsor Mozart operas

The Allied Arab Bank is to sponsor three Mozart operas at English National Opera. It will be in the form of a total of £60,000 over three years towards the cost of staging *The Marriage of Figaro* (currently in the repertory), *Don Giovanni* (spring 1987) and *Così fan tutte* (spring 1988).



Simon Callow and Anthony Hopkins with Harry Grubb in 'The Good Father'

Cinema/Nigel Andrews

Warfare, marital and Cold

The Good Father directed by Mike Newell
Top Gun directed by Tony Scott

Antony Hopkins should wear a striped sweater and a bag marketd "Swag." In *The Good Father* he steals every scene that is not nailed down. The Welsh phenomenon, so nearly lost to Hollywood a few years ago, falls with devouring zeal on the role of a vindictive husband in this British-made tale of marital warfare and tug-of-war children. As in his stage performance in *Pravda*, Hopkins proves he has the greatest of great actor's assets: the ability to take a few hints from a role and turn them into a full-blooded compendium of emotions and mannerisms.

As a film, *The Good Father* comes jangling with high-class credentials: directed by Mike Newell (of *Dance With A Stranger*) and scripted by Christopher Hampton from a novel by Peter Prince. But Hopkins apart, it proves a strangely tinny affair. Clapham Common is the setting for the initial collision between two wife-sundered husbands who want to see more of their off spring. Hopkins is an ageing leather-clad hellraiser, whose estranged wife monopolises his only child. Jim Broadbent, meeker and milder, *is* a father-of-one whose wife has turned to lesbianism in late career.

Hopkins, threatened by his own failures in the custody lists, espouses Broadbent's cause and helps him rattle it through the courts. In one fell day they join forces with a seedy but expensive solicitor (Michael Byrne) and a ditto barrister (Simon Callow) to enact a smash-and-grab raid on the law and seize Mr B's child.

Around this climactic journey there cluster scenes of varied hue—comic, violent, woebegone—but fitful persuasiveness. Hampton's dialogue has a subtle sheen that can sparkle when you least expect, depending on how you turn it to the light. But Newell's direction suggests that the plaudits hurled at him for high promise in *Dance With A Stranger* (though not by me) are on this showing misplaced. The movie traipses in telly-play fashion from one conversational set-to to another, in which the dramatis personae are allowed to show off their character placards: from feminist man-hater Miriam Margoyles ("All men are rapists" says her tee-shirt) to Simon Callow's uproarious barrister, a breezy Etonian thug with prejudices as loud as his sweaters and cravats.

Only Hopkins suggests a three-dimensional psyche whirring inside a mercurial physical carapace: the flashing eyes, the comically, slyly lolling head (like a ventriloquist's dummy that knows more than its ventriloquist), the envenomed aphorisms, the sudden thunder-snarls of pain or rage that can turn Clapham Common, at a stroke, into King Lear's heath.

★

Top Gun turns the Cold War at a stroke into a video game. The Hollywood ideas-men, knocking their noggins together on Sunset Boulevard, have produced a gung-ho-and-hardware romp that seems intended as a cross between *An Officer And A Gentleman* and *The Right Stuff*.

Unfortunately it *is* more like "The Trite Stuff" as trainee fighter pilot Tom Cruise learns to combat "bogies" (that is enemies) at 10,000 feet, competes for the title of Top Gun (that is, best fighter pilot "in the world", as this film tends to designate America) and falls in love with his lady instructor, the beautiful Kelly McGillis.

The director is Britain's Tony Scott, brother of Ridley and director of the late unlamented *The Hunger*. He handles the hi-tech kiss-kiss-bang-bang with frantic aural and visual overkill. He seems afraid that the audience might leave its seats at any minute in which the screen is not exploding with action or colour, or in which rock music is not pounding away at the breakers of our eardrums.

But the film's oddest quality is its existence in a political limbo-land. Nothing so potentially offensive as the words "Russian" or "Soviet" are uttered, even though Mig fighter-planes charge about the Indian Ocean in the movie with no discernible purpose but to spark the international flare-ups which will give the graduated pilots their climatic battle experience. Like the hero and heroine and their chums, the Migs and their pilots are components in a giant Cold War video game (in 70-millimetre and with Dolby sound) which marks the point in US movie history when *Star Wars* comes down to Earth. The film, blithely and dismayingly fulfilling all its formula-built promises, has made a small fortune at the box office.

★

Top Gun has just opened in Paris, whence I am filing this column. So has Britain's *The Mission*, which after seizing the Golden Palm at Cannes in May makes its public European bow this week. The first signs and reviews are favourable.

It is as well that Britain and America are providing excitement for French filmgoers. Their own current films are not. Apart from two veterans' movies which made a hit at the recent Venice Film Festival—Bertrand Tavernier's *Around Midnight* and Eric Rohmer's Golden Lion-winning *The Green Ray*—the autumn movie season has begun damply. The most interesting new development is the move towards chamber-drama styles of film-making. In films like Alain Resnais's handsome *Mélo* (based on a 1920s stage melodrama) and Michel Deville's witty *Le Paltoquet* (a whodunnit which unfolds on a movie soundstage thinly disguised as a dockside bar) settings of hot-house artificiality play host to performances of equally hot-house—and sometimes bravura—mannerism.

But it has taken an Italian director, Marco Bellochio, to set the pulse racing in Paris. In *Le Diable Au Corps* he adapts a French novel (Raymond Radiguet's same-title *Roman*, filmed once before in the 50s), prises a stunning performance from a French star (Maruschka Detmers of Godard's *Prenom Carmen*) and makes a film that has sent shock-waves through French sensibility. There is madness, spiritual crisis and passion. And what happens in the film's more scorcing scenes, when hero and heroine let rip (more or less) in darkened bedrooms, I shall not bring a blush to your cheeks by describing. Not, at any rate, until the film comes to Britain.

Kelly McGillis and Tom Cruise in 'Top Gun'

Vanbrugh and Wilson

Martin Hoyle

How familiar certain Restoration preoccupations suddenly seem to us now: the spiv on the make, for instance, armed with wit, ruthlessness and hard-nosed chutzpah, unencumbered by heart, making it in an older society whose disapproval and class fastidiousness can be massaged by new money.

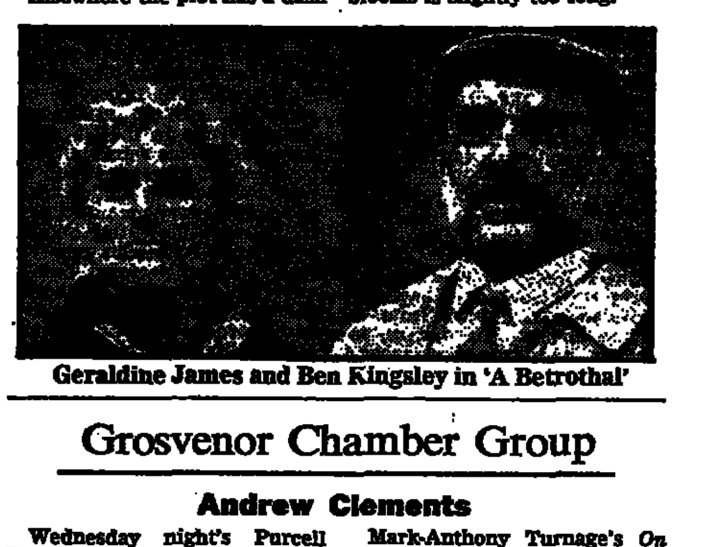
How apt, too, that it should be the King's Road that sees a revival of *The Confederacy*, Vanbrugh's Englishing of a French success, *Les bourgeoises à la mode*. Admittedly, this is the unfashionable end of the King's Road, where for four years the Man in the Moon pub-theatre has both received guest productions and mounted its own without a penny of subsidy (and only one visit, apparently, from the Arts Council). But the descendants of cockney Dick Amlet, gamester and adventurer, who in towering wig, lace ruffs and bell-tent coat cons his way into an advantageous match, can be spotted outside in their machine-tooled stylishness.

Christopher Bridgman directs for Penny Plain, a new company devoted to neglected classics and unknown foreign works. The lively comedy does indeed emerge as unjustly neglected. The Gallic original hints at the socially aspirant world of the *nouveaux riches* familiar from Molière. But in this production the businessmen and their wives are impeccably middle-class (apart from Moneytrap's smelliness). When Anne Renn's Carissa Gripe longs for "the perquisites of quality," daring neither to jilt men nor abuse women "for want of being a countess," we wonder what's stopping her.

Recognisably English, too, are the married couples negotiating a *modus vivendi* with the cool stateliness of superpowers at a summit meeting

Elsewhere the plot has a dash of *Cosi fan tutte*, a soupçon of *The Merry Wives* and a hint of the Teazles. Each wife is amused to find her husband attracted to her friend; and the skinflint curmudgeons are bamboozled by their conniving spouses. Comic highlights include a gathering for tea where the knowing wives make loaded comments on their fatuously complacent menfolk. The Gallic touch returns with Amlet's bag-woman mother reveals a thriftily laid-by nest egg of £10,000, at which her con-man son (Julian Harries, rangily modern and convincing) suddenly becomes an acceptable husband for Bronwen James's inanely innocent Corinna, all squeaky little-girl breathiness (and very funny). Vigorous ensemble playing and Clodagh Scott's tongue-in-cheek decorations (a screen depicting fat cartoon Cupids, for example) for the acting area's whitewashed brick, make for a surprisingly pleasurable discovery.

The late-night fare at the Man in the Moon provides something of a scoop: *A Betrothal*, a two-hander by the American Lanford Wilson in its world premiere, played by the cinematic Gandhi and RSC Othello, Ben Kingsley, no less, and Geraldine James, of *The Jewel in the Crown* and *Blott on the Landscape*. As two iris-breeders meeting in a deserted marquee during a rain-sodden English flower-show, the distinguished actors perform as if they know how droll it all is, which means we find it correspondingly less gawkiness. At 40 minutes the Kingsley especially exudes a resistible brand of ingratiating lovableness. Miss James looks and sounds as if she longs for some of Margaret Rutherford's weight or Joyce Grenfell's *go*. Shyly Mummerset, Mr little anecdote about the rivals coyly joining forces to plan a hybrid from their cherished blooms is slightly too long.



Geraldine James and Ben Kingsley in 'A Betrothal'

Grosvenor Chamber Group

Andrew Clements

Wednesday night's Purcell Room concert was the Grosvenor Chamber Group's debut on the South Bank. In the last three years it has taken on some challenging programmes under its director Keith Burston, and from the standard of playing in works by Hoyland, Turnage Birtwistle and Gabriel Jackson the ensemble has acquired a good deal of expertise along the way, even if performances sometimes seemed to be still mapping out the territory rather than searching behind the notes.

Burston conducted only the premiere of the Jackson piece; the remainder were allotted to Rupert Bawden. His account of Vic Hoyland's *Fox* was somewhat dogged, over-sectionalised; the music did not grow coherently from its repeated beginnings or acquire cumulative tension. It remained what the piece is emphatically not, a sequence of elegantly outlined miniatures rather than a fully fleshed and substantial chamber orchestral work. For Birtwistle's *Silbury Air* the approach was less decorous and more vital; in what is a fiendish score to negotiate the energy and textural grit were vividly projected.

Mark-Anthony Turnage's *On All Fours* was first performed by the London Sinfonietta earlier this year. It is a work of great fertility, fully of invention and well turned instrumental effects, concealing a wealth of subtle touches beneath a seemingly rough-cast surface. The final section, a Sarabande, is beautifully judged, and one wonders what effects he will draw from a full orchestra, when his Feeney Trust commission is introduced by Rattle and the City of Birmingham Symphony Orchestra later in the season.

After Dillinger by Gabriel Jackson (born 1964) was described by its composer as concerned with the "translations, even transliterations, of the patterns, textures and gestures of popular music into the language of the contemporary concert hall." That impulse is only intermittently felt in what is a bold gestured, loosely structured work, scored predominantly in bright instrumental colours. I'm not sure it holds together, but there are more than enough good ideas to suggest that Jackson's music will be worth following through several more works.

Saleroom/Antony Thorncroft

High price for brass

The new saleroom season is slowly getting underway and Sotheby's gave it a boost with a successful coin auction which brought in £371,410 in the morning session with just 3 per cent unsold. The top price was the £46,200 paid by Spink for a George III pattern five guineas of 1770 by John Tanner. The same dealer acquired a similar five guineas of 1777 by Richard Yeo for £38,500.

Perhaps the most interesting lot in the sale was a set of standard weights for gold coins made for the mint in 1774. The thirteen engraved brass weights, ranging from a tiny ¼ guinea to the massive 500 guineas, were used for checking and measuring currency gold coins. They were in a secure box and sold for £5,720.

An unissued £1 note produced by the Brighton Royal Bank in 1841 was bought by the Brighton Museum for £165.

Bonhams, the smallest of the big four auctioneers, secured a massive price of £82,500 for an Italian rosewood and Pietra Dura cabinet of around 1650. It carries the arms of a Bishop of the Barberini family and the eleven drawers are decorated with scenes from Aesops Fables. Perhaps even more extraordinary was the price of £29,700 paid for a Louis XIV Boulle table à ambulante, with the stamp of I. M. Chevallier: it had been estimated to fetch less than £3,000.

Christies also sold furniture and got £17,600 for a George III mahogany sideboard, which carried a £5,000 top estimate. English furniture was much in demand last season and its appeal seems to be enduring.

Sotheby's Victorian picture sale on Wednesday produced an impressive total of £997,128 for mainly second division paintings, but with 19 per cent unsold, suggesting that the market is selective. A chocolate box scene of two young girls, by Carl Bauerle, exhibited at the RA in 1885, doubled its forecast at £33,000, while "Children in a field of daisies" almost trebled its estimate at £28,600. Two very Victorian genre scenes of young girls as play with their dogs by Charles Burton Barber met a mixed response, one on target at £26,400, the other bought in at £16,000.

A unique 15th century English gold jewel, excavated with the use of a metal detector from a field close to Middleham Castle in Yorkshire a year ago, comes up for sale at Sotheby's on December 11. It is expected to go for around £250,000. The jewel is the most important item of medieval jewellery to surface since the War. It was designed to be worn as a pendant, and is engraved with religious scenes, suggesting it was owned by an ecclesiastic from nearby Jervaulx Abbey.

Continued from Page 24

Exhibitions

PARIS

François Boucher: the 86 paintings and 25 drawings of his first major retrospective re-create the pastel-coloured world he peopled with voluptuous goddesses and Shepherds. Premier Peintre du Roi, a favourite and friend of Madame de Pompadour. Boucher personified the lighthearted charm and seduction of the Louis XVth Period. His pastoral and mythological scenes reproduced by engravings, tapestries and on Sèvres porcelain spread the influence of French court art all over Europe. Grand Palais, closed Tue, Ends Jan 5th (4289 5410).

WEST GERMANY

Stuttgart, Württembergischer Kunstverein: Artists in Germany from 1900 to 1945 represented with 200 pictures and sculptures. Ends Nov 9.

München, Neue Pinakothek: King Ludwig I as a collector. A photographic exhibition commemorating the 200th anniversary of his birth. Ends Nov 23.

LONDON

Hayward Gallery: Dreams of a Summer Night – an exhibition of painting at the turn of the century in the five Nordic countries, organised by the Arts Council and the Nordic Council of Ministers. It proves to be an important and intriguing exercise in critical reassessment, for though many of the painters enjoyed a certain contemporary fame abroad, they were with one great exception all but forgotten in the years after the First World War. Munch was that exception, and the chief value of this exhibition, which throws a fresh light on his work, is the demonstration that he was no arbitrary phenomenon but the notable product of a distinctive national and regional character. Ends Oct 5, then Düsseldorf and Paris.

ITALY

Rome: Museo Napoleonico, via Zanardelli 1: Leopold Robert: Delightful exhibition of scenes of 19th century Roman street and convent life, painted with an ingenious eye and an unremittingly grand manner. The young Swiss artist came to Rome, took second place in the Prix du Rome of 1814. Suffered an unrequited passion for Princess Carlotta Bonaparte and died in Italy in 1835. Ends Nov 16.

SWITZERLAND

Lugano: Villa Favorita: Goya In Private Collections: 50 paintings by Goya, normally impossible to see and which have never travelled before. The exhibition is organised by Baron Thyssen and the Spanish Minister of Arts. Among them is the portrait of the Contessa di Chinchon, considered the best of Goya's paintings of women. Ends Oct 19.

NETHERLANDS

The Hague, Museon. The legends and facts surrounding the life and voyages of St Brendan, the 6th-century "Irish Odysseus", are examined with the aid of fancifully illuminated manuscripts and early printed books. Ends October 26.

BRUSSELS

When the posters went to war: American posters through the two world wars. Musée Royale d'Art et Histoire. Ends Oct 12.

VIENNA

Dian – a submerged kingdom of China: According to the organisers this is the first exhibition in the west of treasures from the Dian Kingdom, which existed more than 2,000 years ago in south-west China. Unusual and spectacular gilded bronzes were discovered only 30 years ago in Dian burial grounds. Exhibits include dramatic groups of men and animals, showing scenes of war, dance and celebration. Also on show are weapons, tools, musical instruments, agricultural and weaving equipment, bronze drums and jewel boxes from what must have been a vigorous culture. Museum of Mankind, Neue Hofburg. Ends Nov 23.

NEW YORK

Museum of the City of New York: Arbit Blatas's paintings, drawings and sculptures of Three Penny Opera covering 12 scenes and 11 characters, were inspired by the historic Theatre de Lys production in 1954 starring Lotte Lenya. Ends Oct 15.

WASHINGTON

National Gallery: Viennese Renaissance sculpture from the Kunsthistorisches Museum includes work by Bertoldo di Giovanni, Andrea Briosco, and Alessandro Vittoria. Ends Nov 30.

CHICAGO

Chicago Historical Society: Louis Sullivan, a seminal figure in American architecture, is celebrated in an exhibit in the city he made architecturally famous with newly made models of his buildings along with drawings, sketches and building fragments emphasising his use of ornament. Ends Dec 31.

TOKYO

Drucker Collection of Japanese ink drawings: 140 works from Peter Drucker's collection include masterpieces from the Kamakura to Edo period (12th-19th century). Matsuzakaya Art Gallery, Matsuzakaya Department Store, Ueno branch. Closed Wednesdays.

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Friday October 3 1986

Challenge of US tax reform

THE US is fiscally fortunate in one respect: President Reagan has shown more interest in fundamental tax reform than any of his modern predecessors, with the possible exception of John F. Kennedy who both cut top tax rates and sponsored the investment tax credit which the administration is now burying. The fruits of Mr Reagan's interest, first expressed vigorously in the 1984 State of the Union address, are now evident: a tax act awaiting signature which most observers agree is the most radical in at least four decades.

Many of the changes are startling from a European perspective. Few politicians on this side of the Atlantic would dare to propose a top personal rate of 28 per cent or an increase in business taxes of nearly a third over five years. Yet though the detail of the legislation is instructive, Europeans, and perhaps the British in particular, have more to learn from the way tax reform was approached in the US than from its content.

Of many lessons, the most important is that tax reform has to be done in one fell swoop. This is not a new idea to Americans. The US Treasury, after all, has produced two theoretical blueprints for radical reform—one in 1977 and one in 1984: both loked at the big picture. In other countries, finance ministries tend to produce numerous green papers proposing limited reforms which are usually undermined by the special interests affected. Mr Reagan has shown that special pleading from lobbyists loses much of its persuasive power when everybody's tax liabilities are changing.

Public debate

Radical reform also needs political sponsorship at the highest level. Meaningful reform would not have been possible without a push from the White House. In Britain, tax reform ran into the ground, despite an overwhelming Tory majority, both because of its piecemeal nature and because Mrs Thatcher's heart was not really in it.

Equally important, reform has a chance only if politicians recognise at the outset that there will be losers and if they are prepared to allow an informed public debate. The outcry raised in the UK about the retroactive effects of phasing out pension lump sums (which get two sets of tax relief) looks ludicrous set against the serious financial losses which some users of tax shelters will suffer in the US. And the failure of the British Treasury's recent personal tax green paper to discuss alternative reforms even in a narrow area of policy looks petty compared to the vigorous debate of much larger issues in Washington.

America's approach may be admirable. It is more questionable whether the actual policies address the fundamental weaknesses in its employ. A wide spectrum of economists are agreed that the US badly needs a tax increase, which would curb the rate of public dissaving, and effective measures to boost the private savings rate. The present legislation will achieve neither and indeed gives American individuals another significant tax cut, a good deal of which will leak into yet higher imports.

Capital spending

It is true that the legislation, by slightly narrowing the gap between savings and investment, may lessen America's reliance on inflows of foreign capital and thus help bring the dollar down. But this is achieved perversely by repealing the investment tax credit—a measure opposed by some of the country's leading economists—and depressing capital spending. A shift to taxes on consumption, which raise very little revenue in the US, might have been more sensible than a business tax increase which will hurt the weakest section of US industry—heavy manufacturing.

The most interesting question is whether America's new very low rates of personal tax are exportable. It seems unlikely in the short run. Public expenditure burdens are much higher outside the US, except in Japan, and this militates against large personal tax cuts. Concepts of fairness are also different. In Europe it may be more important that tax schedules are not just progressive but seen to be progressive. What is and should be exportable is America's strategic approach to tax reform.

Moscow's role in the Gatt talks

CHINA, the second largest Communist trading nation after the Soviet Union, will play an active part in reshaping the free world's trading system when negotiations in the General Agreement on Tariffs and Trade get under way next year. The Soviet Union will not. The straightforward reason is that China this year formally applied to resume its membership of the Gatt, while the USSR merely requested to sit in on the talks with a view, possibly, to applying for membership at some future date.

On the face of it, neither country would seem particularly qualified to claim the benefits of the Gatt since neither has the kind of economic system that allows it to meet the obligations of a free-traders' club. Yet China's application has been welcomed and her participation was specifically provided for in last month's ministerial launch of the new round; Russia's request, on the other hand, has to all intents and purposes been refused. Western governments need to ask themselves whether an entirely negative response to the Soviet approach is correct.

It is not difficult to explain why China's overtures should be taken seriously and Russia's not. The US has said that Soviet participation would make a nonsense of the already fragile Gatt system: others agree with the unstated perception of the USSR as a potential troublemaker, and brush aside Mr Gorbachev's promises of internal reform. China, by contrast, has convinced the western diplomatic community in Geneva that its "open door" policy is here to stay and that its move towards a more market-oriented economy is genuine.

US disappointment

The Gatt is not an ideological institution: its articles make specific provision for the role of state trading. It is indifferent to the question of who owns the means of production in member states, so long as enterprises are free to compete at home and to trade abroad on the basis of real costs and real prices. The fact that they choose to call it "socialist emulation" rather than competition does not matter.

The last Gatt round—unlike the present one—was open to all countries and the US was disappointed when the Soviet Union refused to take part. There are no clear preconditions for joining the club: indeed it has a bewildering diversity of members. Five Comecon countries, including Cuba, are Gatt signatories.

The Soviet Union has just announced steps to improve its own credentials for being seen as a serious Gatt applicant. The Ministry of Foreign Trade's monopoly is being broken up from next year to allow 21 industrial ministries and 67 enterprises to manage their own trade with the West. A Soviet official claimed in Geneva recently that "the Soviet mechanism of external economic management as a whole does not contradict the Gatt principles, rules and practices."

Chaotic system

That statement may not stand up to closer scrutiny, but the present Soviet regime's motives for hovering round the Gatt deserve attention: they may go deeper than a desire not to be a mere bystander to a global negotiation.

The USSR needs to modernise its chaotic indsutrial system and sell more manufactures abroad in order to make good falling hard currency revenues from the export of raw materials. The more a country diversifies into finished goods, the more relevant the protection offered by the Gatt system becomes, since primary commodities are least touched by other countries' import barriers. Membership of Gatt would give the USSR some guarantee of predictable access to other markets.

Furthermore, the Soviet Union's courting of the Gatt can be seen as a signal from the new economic thinkers in the Kremlin to ideological conservtives in the central bureaucracy who are not going to give up the levers of power easily. The need to get on to competitive terms with the rest of the world by seeking the protection of the Gatt could provide Mr Gorbachev with another justification for pushing through unpopular internal reforms.

It took Mexico a bare six months to negotiate its membership of Gatt this year. It could take China several years. Political considerations apart, the Soviet Union would be starting from a position not much weaker than China's. Having been rebufed over the new round, the USSR should put its cards on the table and make a formal application to join the Gatt. Its case deserves a proper hearing.

FOREIGN AFFAIRS

Sudden death may lie in wait at Reykjavik

By Ian Davidson

PUBLISHED commentaries on the decision to stage an unprepared meeting between President Reagan and Mr Mikhail Gorbachev in Reykjavik at the end of next week, have tended to conform to one of three schools of thought: the optimistic, the ophthalmological, and the apprehensive.

The Optimists and the Ophthalmologists both agree that President Reagan and Mr Gorbachev are likely to reach some agreements; they disagree on whether this will be good for the West. The Old Apprehensives want to hope that the Optimists are right, but they fear that the two leaders are embarked on a high risk strategy which could go badly wrong.

The Ophthalmologists, so called from their close observation of eye movements, tend to come from the far right wing of the political spectrum, and their assessment of the denouement of the Daniloff-Zahkarov affair and the mini-summit decision is vibrant with rage and foreboding.

They regard it a monstrous that the innocent Daniloff should, in practice, have been traded for the spy Zakharov; they believe that President Reagan was outfaced by Mikhail Gorbachev—he "blinked," according to the biological test which dominates their analysis; and they fear that this may prove a precedent for more profound betrayals of American interests in the weeks ahead.

The kind of scare-mongering deserves serious attention as an indication of the kinds of pressures which can be mobilised, and indeed are being mobilised, on the American right against any deals with the Soviet Union; but not as a balanced analysis of what has happened or is likely to happen.

One may legitimately criticise the Soviet Union for having framed Nicholas Daniloff, if that is what it was; but one may also ask how great is the difference between a straight frame and the scam which trapped Zakharov. In any case, whatever the rights and wrongs of equating the two men, it was clear from a very early moment in the affair that both superpowers were anxious to find a face-saving way out of the conflict which would protect the prospects for a second summit.

The Daniloff-Zakharov affair was significant, not as a test of President Reagan's moral fibre, nor as a test of the moral equivalence between journalism and spying, but as an ill-timed and ill-judged test of the priority being accorded by both sides to the preparations for the summit.

There is not the slightest reason to infer that President Reagan will, in Reykjavik, sell the security of the West down the river; on the contrary, the President's jumpy reactions during the Daniloff affair suggest that there is a much greater danger that he may be deterred from reaching equitable agreements with Mr Gorbachev, out of fear of his right-wing critics in the school of ophthalmology.

The Optimists have a much more rational case. The apparent intractability of the Daniloff affair gave the two foreign ministers reason for intensive and extensive conversations; but since this affair was only significant in respect of the difficulties it could create for the summit, so it is obvious, with hindsight, that they must have spent a large part of their time together discussing the summit agenda. Since they decided to resolve the hostage problem with the minimum of fuss and recrimination, so they must have concluded that the prospects for the summit were looking pretty good.

Mr Reagan must be only too aware that he has been manoeuvred by Mr Gorbachev into a delicate, even dangerous position

The Optimists then go on to sketch out the various items on the superpower agenda which might be ripe for agreement, or at least for manifest progress, at the Reykjavik meeting. Their favourite candidate is an interim agreement on Intermediate-Range Nuclear Forces (INF), more commonly known as Euromissiles: the American cruise and Pershing II missiles, and the Soviet SS 20s. The formula most often canvassed as a possible compromise is that each superpower would be allowed to keep a maximum of 100 warheads in Europe; that the Soviet Union would have a further 100 warheads in the Far East; and that the US would be entitled to have, but would not deploy, an equivalent Far Eastern contingent.

It looks very neat, and perhaps it is negotiable; its major attraction, as a relatively small and self-contained package, could be its symbolic significance as a first step towards the rebuilding of a wider framework of understandings on nuclear arms control.

But as a free-standing agreement it seems to have at least two rather serious drawbacks. First, European Nato would be unhappy about an agreement which limited SS 20s but did not limit shorter-range Soviet missiles like the SS 21s, 22s and 23s; the Germans would be particularly unhappy, because these missiles could cover all targets in Germany and beyond. There would be little satisfaction in watching the Russians stage a bonfire for surplus SS 20s in the front garden, if they were able to build lots more little ones round the back.

Second, the Russians have long resisted giving any formal legitimisation to the new American missiles in Europe; it seems rather improbable that they would concede this point by wrapping up a deal on Euromissiles, so long as there was no limitation of strategic weapons and no insurance against President Reagan's Strategic Defence Initiative, otherwise known as Star Wars. The logical pre-condition for an INF agreement is some degree of predictability over the overall nuclear environment, and that means an understanding on the basic conditions for nuclear stability—the balance and the interaction between defensive and offensive systems. Mr Gorbachev will be very trusting if he gives Mr Reagan the satisfaction of an INF deal, without any guarantees on Star Wars.

So what about chalking up some progress on long-range weapons? In principle, the situation looks promising, because both sides are offering rather deep reductions, and without a vast difference in the proposed overall ceiling of warheads.

The problems arise from the large asymmetries between the two arsenals—the Russians have more big land-based missiles, the Americans have more submarine-launched missiles—and the difficulties of handling a package which contains many kinds of weapons: bombers, several types of ballistic missiles and several types of cruise missiles, some of which have been covered in past arms control agreements, and some of which have not. It hardly seems likely that this is the kind of technical stuff that President Reagan will want to get into when he is alone in a room with Mr Gorbachev.

The third Geneva negotiation is over Star Wars, and here the situation is rather similar. The two sides have dropped the language of ideological absolutism, and are trying to translate their differences of opinion over the case for or against a missile defence system into a number: the number of years during which the deployment of a Star Wars defence would be postponed, i.e. banned. The Russians want at least 15, the Americans are offering seven; it looks a classic case of halve the difference. The difficulty lies in defining exactly what tests and developments can be carried out in the meantime; again, this is technical-legal stuff which Mr Reagan will want to steer clear of.

All the evidence suggests that Mr Gorbachev is genuinely committed to the pursuit of arms control, not least because of his need to reduce the burden of defence spending on the Soviet economy. No doubt he has his conservative critics; but it is a matter of public record that the Reagan Administration is deeply split on the very principle of arms control. The question facing the two leaders is not whether they can agree on a number between 7 and 15, but whether they can come to share compatible political objectives.

The interpretations of the Optimistic School of Summitologists look pretty convincing until they are asked to explain the holding of the preliminary meeting in Reykjavik.

Let us suppose that the Shultz-Shevardnadze conversations were remarkably productive, and either produced a narrowing of differences in one or more negotiating areas, or else identified more closely those issues which hold out the greatest promise of progress.

The most natural next step, surely, would be to build on the achievement by setting and announcing a date for the scheduled second summit, in Washington, in December or January, so that the professional negotiators would have time to fit some words to the music. By contrast, an early meeting in Iceland looks like an emergency.

Some of these Optimists think pretty fast on their feet, however. "Aha!" they reply, "Mr Gorbachev is so excited by the progress in the Shultz-Shevardnadze talks, and so desperate to have a successful summit in Washington, that he will resort to any manoeuvre to pile on the pressure and keep up the momentum. This just shows how keen he is to get some movement in arms control."

Well, maybe; but I just wonder if the Old Apprenheusves are not a bit more realistic. Their interpretation would run something like this. Shultz and Shevardnadze did indeed make progress in technical terms, but the Russians were still left wondering whether, at the end of the day, Ronald Reagan is really going to put his name to an arms control deal with the Soviet Union which will restore some predictability to the nuclear balance between the superpowers. Mikhail Gorbachev seriously wants a successful summit in Washington, but this time round he is determined to get something a good deal more substantive than a few photo-calls. Only one person can resolve his doubts: Ronald Reagan. Ergo, fix a meeting with Ronnie in Reykjavik.

In reality, of course, it is extremely doubtful whether the meeting in Reykjavik can resolve Mr Gorbachev's doubts. President Reagan will certainly protest his devotion to arms control and deep cuts, and will mean it; but he is unqualified to debate the details, and without the details he cannot be forced to give a Yes or No on the principles which would have any meaning. He will continue to proclaim his faith in the beneficence of Star Wars; not until he is presented with a text which amounts to a final offer will he decide whether to postpone its implementation until the Greek Kalends.

Mr Gorbachev must know all this perfectly well. But he may feel that he has to get some kind of answer to the question of political principle before he finally commits himself to a Washington summit.

In one respect, the optimistic thesis is surely plausible: Mr Gorbachev is piling on the pressure, because there was no way Mr Reagan could have refused the proferred meeting. In another, the apprehensive scenario is even more plausible: if Mr Gorbachev gets, or feels that he has got, the wrong answer at Reykjavik to the central political question, he could decide to play up the meeting as a failure and call off the Washington summit. It cannot be in his domestic interest to go on pursuing such a passionate role as an Ardent-For-Peace, if it appears that President Reagan is merely fobbing him off with little tit-bits; sooner or later he may decide to that he can play for time, while Ronald Reagan can't.

Even if this is not his intention, the timing of the event, three weeks before the US mid-term elections, guarantees that a public fiasco would have the maximum political impact in America. Mr Reagan must be only too aware that he has been manoeuvred by Mr Gorbachev into a delicate, even a dangerous position: he must know that simple charm and sincerity may not be enough to bring off a second finesse, if Mr Gorbachev decides to raise the stakes, by changing the rules to Sudden Death.

Men and Matters

Fielding for Sussex

The Council of Sussex University is today expected to pick a new vice-chancellor—and Leslie Fielding, Britain's most senior civil servant in the Brussels bureaucracy, appears to be the front runner for the post.

If he gets the job—and he is rumoured to be the unanimous choice of the selection panel—it will be a typically unconventional move for a man who has always been something of an off-beat diplomat.

There will also be some fascinating ramifications in the Berlaymont, probably boosting British chances of providing the next secretary-general to the EEC Commission.

Fielding has been director-general for the past four years of the Commission's external relations department (known in Eurospeak as DG1), a job which made him Brussels' top trade negotiator. He has just returned from the exhausting launch of the new Gatt round in Punta del Este with much the sort of deal the Community wanted.

Before that he was the EEC man in Tokyo, a job for which he spent a year swotting Japanese at Oxford, to add to the Persian he learned when he joined the Foreign Office.

One claim to fame in his diplomatic past was the award of a prize by Prince Sihanouk the Cambodian leader, as "champion du twist" after demonstrating the new dance at a palace ball. The event helped to thaw the complete freeze on relations with Britain at the time.

Fielding's closest connection with academic life, hitherto, has been through his wife, medieval historian Sally Harvey, who has found her study of the Domesday Book and Anglo-Norman England rather difficult to pursue while living in Belgium.

But at Sussex, Fielding would clearly belong to the new generation of university administrators rather than distinguished academics in vice-chancellors' seats—a move inspired by the determination of the Government keep tight hold of the purse strings.

Confirmation of Fielding's departure from the EEC next year would, meanwhile, start the hares running in Brussels, where Emile Noel, the Commission's secretary-general since the creation of the Community, is also due to step down.

A leading contender for that key job is David Wiliamson, Mrs Thatcher's cherubic and highly-respected European adviser, who was formerly number two in the Brussels agriculture directorate.

If Britain is vacating the post in DG1, its most senior position in the Commission, then Williamson's chances of beating the West German candidates for the secretary-generalship will be greatly improved.

MacDonald's trip

The man who may lose least sleep over the fate of Dome Petroleum is Howard MacDonald, the ailing Canadian energy producers chairman.

The burly former Royal Dutch Shell treasurer has been in London and Zurich this week asking to waive principal and interest payments on part of the company's C$6.3bn debt.

The slump in oil and gas prices has pushed Dome to the brink of bankruptcy, but MacDonald has always maintained that the company's 56 creditors have the biggest problem.

Dome, he is fond of saying, has the solutions—the latest of which is a recapitalisation plan which proposes that lenders convert a big chunk of their debt into securities.

MacDonald, who spends only about half his time at Dome's head office in Calgary, has impressed bankers with his blend of toughness, realism, and [illegible] humour.

"Don't you threaten me with social ownership pal"

"I wouldn't say I'm thick-skinned" he said over a recent midnight drink. "But I'm not a shrinking violet either." One of his favourite tactics is to threaten to return to his native Scotland, leaving the banks to pick over Dome's entrails.

What ever happens to Dome, MacDonald is provided for. A C$4m trust fund has been set up by Dome to cover his benefits, and pension.

Henry's options

Aeronautical engineer turned computer specialist C. J. ("Chuck") Henry devised a system for the Pacific Stock Exchange which settled small orders automatically and without human intervention, claimed to be the first of its kind in the world.

There were problems within a week. The Exchange's computer staff were at odds with the sophisticated computer software. Henry was called back to clear up the mess and 10 years later ended up as President.

Now, a further seven years on, he is president and chief operating officer of the Chicago Board Options Exchange, third largest exchange in the US, and in charge of an £18m computerisation plan which should match the electronic capabilities of the exchange with its very considerable ambitions.

Hewas in London earlier this week, talking to senior fifures at the Stock Exchange and LIFFE and assessing what is likely to happen after Big Bang on October 27.

One possibility is an electronic connection between Chicago and London.

He is bullish about traded options in London (and everywhere else) but sees a powerful need for education to create market awareness. If he is right, London's technology, currently handling some 25,000 contracts a day, may have to grow some. Chicago routinely handles one million contracts. When Wall Street fell drmatically last month, it processed two million contracts in 24 hours.

Peking style

It is as well for visitors to China to remember that the national sense of propriety is as strong as ever, even after a revolution and 37 years as a Communist republic.

The Chinese leaders threw a great party to celebrate the 37th anniversary of the republic in the Great Hall of the People in Peking this week.

The Chinese Premier Zhao Ziyang was toasting guests in Chinese dry white wine and exchanging pleasantries with all he met.

Perhaps carried away by the premier's amiability one guest attempted to hand Zhao his visiting card.

The premier looked imperiousl at the outstretched hand which melted back into the man's trouser pocket.

Observer

POLITICS TODAY

Mr Kinnock's eyes on Europe

By Malcolm Rutherford

THREE MAIN thoughts occur as the Labour Party conference closes in Blackpool this morning.

- Under the leadership of Mr Neil Kinnock, the party really has become an efficient organisation.
- Mr Kinnock and his colleagues have realised what a daunting task they face on the assumption that they win the general election.
- There is an underlying lack of consensus both within and between the political parties on some of the critical issues for the future, which does not bode for stability.

Of Mr Kinnock's ascendancy over the party there can be no doubt. One wonders if even Mrs Thatcher ever had quite such a grip on the Tories as he now has on Labour. The dissidents have been reduced to the fringe. Mr Tony Benn is a voice from the past. The Liverpool Militants have been repudiated. The trade unions appear to have accepted a more arm's length relationship. The leader of the Labour Party is no longer locked in permanent conflict with the National Executive Committee. Indeed, Mr Kinnock achieved a further triumph on Wednesday when he ensured that Mr Dennis Skinner, of the far left, would not become the NEC vice chairman.

The hold of the far left over the constituency parties is also being weakened. That was demonstrated by the vote to expel the Liverpool Militants in the closed session of the conference on Wednesday. Up to half of the constituency parties must have voted for the expulsions, something that would not have happened a year or two ago.

It was shown again in the way Mr Tam Dalyell was elected to the constituency section of the NEC in place of Mr Eric Heffer. Mr Dalyell is a maverick MP, by no means of the left, who has made his name by repeatedly asking embarrassing questions of the government of the day. Merit and persistence have been rewarded, rather than left-wing credentials.

Efficiency is breaking out all over. When Mr Willy Brandt, the former West German Chancellor and fraternal delegate, gave a press conference, a tape of what he said was available within five minutes, including a translation from the German. Mr John Smith, the Shadow Industry Secretary, held a press conference on the future of the British car industry and had at his side the key Labour Party and union figures involved in the future of Bedford Trucks and Austin Rover.

In the main body of the conference there is now much less heckling and none of the scuffling and stamping that was such a feature of the past: only the occasional light hissing and slow handclapping. Even the Tories allow that. The leadership is respected.

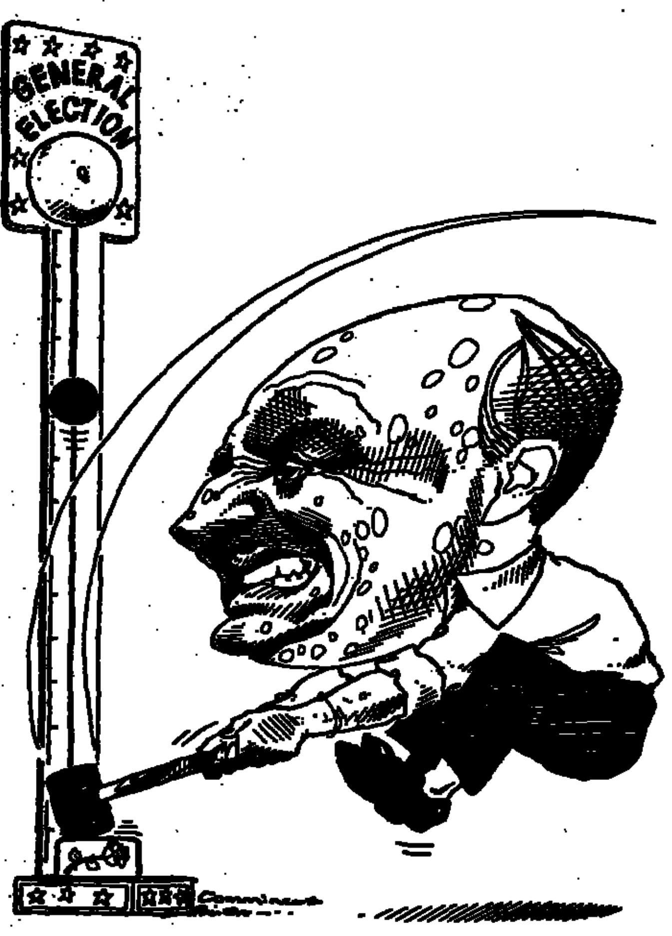
The party has turned to some of the concerns that most affect ordinary people: for example, law and order. The conference used to debate the iniquities of the police. This year Ms Siobahn McDonagh, the Labour candidate for Morden and Mitcham, the seat of Mrs Angela Rumbold, the Education Minister, won rounds of applause for saying that crime was the most important issue for the vast proportion of women and elderly people in her constituency.

Labour has also succeeded in arousing considerable international interest in its affairs. Mr Brandt, who looks younger with age, did not come to Blackpool just to show a friendly face. He made a serious speech about the British Labour Party and European socialism. The Swedish Prime Minister wanted to come as well, but was advised not to do so for security reasons. The ambassadors who attended were not simply paying courtesy calls.

In short, this is a party that wants to win power, expects to do so, and is not going to fail, as Labour has so often failed in the past, because it is stuck with a penny-farthing machine.

The thought of victory has begun to concentrate the mind of the leadership on the awesome nature of the inheritance. This is a country which 10 years after the intervention of the IMF, nearly 20 years after the formal devaluation of sterling, still has a vulnerable currency, high real interest rates, more that 3m unemployed, and may be about to return to balance of payments problems.

Mr Kinnock gave notice that he was anxious not to promise too much at the TUC conference last month.



The desire not to raise expectations too high was a theme he shared with Mr Roy Hattersley, the Shadow Chancellor, in Blackpool. Both of them seem to have learned from Mrs Thatcher's experience that it takes a long time to turn a country round. They have begun to speak, as Mrs Thatcher did after a year or so in office, of needing two or three terms to do it.

Economic policy is not yet complete. Mr Kinnock talks about a five-year medium-term employment strategy and a ten-year economic planning perspective, neither of which has been developed any further this week. From time to time there is a hint that they hope to rely on high economic growth to solve some of their problems for them: always a dangerous assumption about the British economy.

The aim is to have the broad details of the policy ready for unveiling early next year. Behind the scenes, a fascinating argument is going on about it. It concerns Europe.

Britain's relationship with its European partners was not debated this week, either in terms of defence or the economy. Yet on economic grounds, it is going to be essential for a Labour Government to come to terms with the European Community and for the party to be prepared to do so before arriving in office.

One subject being discussed is that Labour should take Britain into the European monetary system. The terms, of course, would be crucial. There might have to be a formal devaluation of sterling before negotiations started. But there could be considerable advantages, apart from providing some protection against currency fluctuations.

There is talk, for instance, of seeking to step up the Community's regional programme in order to provide assistance for Britain's depressed areas. The old MacDougall report on the redistribution of the European Community's resources is being looked at with new respect. There is also discussion of the idea of a common European industrial strategy which would align Britain more firmly with Europe rather than with the US.

The reason behind the thinking is the realisation that there is no way in which a Labour Britain could seek to go it alone in the world. It would need friends somewhere and Europe is the obvious place.

The political difficulty is that the party as a whole has been told nothing about this new internal debate. Early in the summer Mr Kinnock considered using his main Blackpool speech to say that Labour's doubts about membership of the Community belonged to a bygone age. He said nothing of the kind this week. Yet if he does go for a European strategy, it can hardly be done in secret. There is a slight fear that the party has already accepted enough from him in the way of changes that it might baulk at a sudden wholehearted commitment to Europe. Still, a Labour conversion is on the cards.

If that happens, it should end one of the great divides in British politics of the last 30 years. The split was not only between the parties but within them, especially Labour. Indeed, with the exception of nuclear weapons, the European issue did more than anything else to tear Labour apart and to lead to the formation of the Social Democrats.

Broad cross-party consensus on belonging to Europe will come, however, if it comes at all, at a time when consensus on other central issues — defence and nuclear power—has broken down.

In a way, the defence debates at all the party conferences so far this year have been unreal. They have been overshadowed by outside events, culminating in the announcement of the US-Soviet meeting in Reykjavik.

Yet the Labour Party's commitment to non-nuclear defence for Britain appears to be absolute. The only room for manoeuvre is on the use of British facilities by American forces. Here there might be some movement with Labour seeking a specific agreement with the US on what British bases are to be used for. Mr Kinnock will probably discuss it in Washington later this year.

Many people will regard this possible sop to the Americans as marginal. The most important fact is that Labour will have to defend its non-nuclear defence policy in the election campaign. The party leader has gone into this with his eyes open.

As for the Panorama programme voicing American criticism of it all, the key statement came not from Caspar Weinberger, the US Defence Secretary, who spoke more in sorrow than in anger, and was rather mild. It was Senator Sam Nunn of Georgia who said that if Britain pulls up the rug, the Atlantic Alliance would start unravelling. Sen Nunn has far more power than Mr Weinbeger will have to call for resolutions demanding an American withdrawal from Europe.

Civil nuclear power nowadays divides all the parties, as we know from the Conservative opposition to nuclear waste disposal sites. It divides the trade unions as well, as was evident in Wednesday's debate.

Before the divisions get any deeper, it might be better for all parties to have a pause for thought. The possibility of one government commissioning a nuclear power station only for its successor to cancel the contract will place a considerable strain on British politics. The subject has nothing to do with ideology and everything to do with rational discussion.

The nightmare of the week has been that Labour will come to power, seek to reverse much of what Mrs Thatcher has done, and after a few years, find that Britain's economic problems are as intractable as ever. Blackpool and its visitors, by the way, seem to be enjoying a consumer boom of enormous proportions, hardly aware that the conference is taking place.

Lombard

The drawbacks of one-stop shopping

By Richard Lambert

NEXT to winning the football pools, the best thing to do in the UK at present is to own a chain of estate agents. The entry costs are not high—one of the main requirements being a well developed sense of the English language—and most of the assets walk out of the door at lunch time. Yet banks, insurance companies and building societies are falling over each other to buy up estate agents at inflated prices.

It all seems very logical, really. These agents deal with customers who are on the point of making the biggest financial decision of their lives. Once you have got them into your high street office, you can tie them into other services—insurance, mortgages, securities, or whatever. Cross-selling is what the management consultants call it.

That is what Merrill Lynch had in mind, too, when it started in the late 1970s to build up what has become one of the largest property brokerage businesses in the U.S. Yet this week, the group announced that its real estate operations were up for sale. "Greater opportunities for us lie in our traditional operations," it explained.

Although Merrill's management has had its difficulties in recent years, it is still one of the most sophisticated and well capitalised retail financial services groups in the world. It invented the cash management account, a combination of banking, securities and credit card services which has been one of the few successful attempts to package several financial services into one product.

If it has failed to exploit the hoped-for synergy between its thousands of stockbrokers and real estate associates, and if it has decided that the capital employed in this non-capital intensive business could be better used elsewhere, then what are the chances of the West Mummersetshire Building Society succeeding at the same game?

In the US, at least, the concept of the financial supermarket has now been thoroughly discredited. In 1981 Prudential bought Bache Securities, a merger which was to lead to one of the biggest annual losses in Wall Street's history. Sears acquired Dean Witter and Coldwell Banker, leading securities and real estate firms which have been the source of headaches more or less ever since.

To complete the trio of 1981 acquisitions, American Express picked up Shearson. Although the latter has continued to do well, few of the hoped-for gains seem to have been realised from the link between a marketing-oriented credit card business and a securities firm.

Some of the acquisitions were badly judged, with the purchasers apparently more interested in grand concepts than the undenying quality of the business. There have been cultural differences, too—at Sears, for instance, where the attempt to mix high-powered investment bankers with canny retail operators has produced the occasional explosion.

Regulatory requirements have also loomed larger than antictpated. Stockbrokers and real estate agents cannot make money out of referring clients to each other unless they have the appropriate licence. And it seems they are unwilling to make these connections just as a matter of corporate spirit.

Most fundamental of all, it seems that the public is not keen to put all its financial eggs in one basket just to please the corporate planners. The cash management accounts provided real value, by sweeping up idle money and allowing clients to deploy their funds more flexibly. But it is not obvious that similar advantages have been gained from putting a real estate firm and an insurance company into one group.

The odd thing is that anyone should have thought otherwise. On the institutional side, securities firms are working on the assumption that their clients will increasingly shop around in the future, going to one bank to arrange their commercial paper transactions and another to organise their acquisitions. Why should Joe Public be any different?

The answer to this question could prove expensive for a number of Britain's new financial conglomerates.

Letters to the Editor

Freedom and fairness

From Mr J. Redwood

Sir,—Mr Green's letter (September 30) illustrates the current schizophrenia at the centre of Labour's policy towards urban and industrial regeneration. He begins in the usual way by selling Britain short. He sides with your previous correspondent who castigates British life from the distant safety of Switzerland.

We are told that it does not matter that the tube system is being refurbished and it is implied that the rebuilding of Docklands, the hospital programme and the new investment at BR, to name a few, do not count. We are told that the Government is merely out to transfer monopolies from public to private. There is no mention of the strong competition in many parts of telecommunications nor of Labour's proposal to snuff it out by giving Mercury to a renationalised BT.

Mr Green then passes swiftly on to expressing enthusiasm for "returning power to the people" at the heart of popular capitalism: through clenched teeth he likes the idea of employee share ownership schemes and he agrees that policies designed to improve and change social life should be done in a "step by step approach" just as the Conservative trade union reforms were carried out.

At the centre of Mr Green's party is a paradox. They are forced to accept that more people getting a slice of the action in industry is a good thing. But they cannot bear the fact that it has come about under a Conservative government and that they have taken every step possible to try and stop it.

Why did Labour oppose the National Freight buy-out, the success of Jaguar as a private business, the sale of council houses to their tenants, the right of trade unionists to a ballot before strikes, if they believe in "freedom and fairness"?

Nor do they find it easy reconciling their new enthusiasm for participation through shareholding with their old and proud belief in Clause 4 nationalisation, central planning and government knows best. So now they resort to untruths — wild assertions that most BT shareholders sold for a quick profit (when most have held on to their investment despite Labour's attack on its value) — and to the idea that they should not spell out their true intent for fear that people might object.

Mr Green concludes with a contradiction. Labour would have to direct investment and stop people going abroad on holiday or buying Japanese videos and at the same time would need to increase the power of workers. No-one has ever explained how with nationalisation, central planning and political decision-making you can at the same time increase personal freedoms and satisfactions. Yet new freedoms are at the core of the progress of employees in the 20th century and at the centre of this Government's drive to wider ownership.

John Redwood.
506 Queen's Quay,
Upper Thames St, EC4

Student loans and access to education

From the President,
National Union of Students

Sir,—When Mr Kenneth Baker took over as Secretary for Education, he was hailed as a master of presentation. It now seems that for "presentation" we must read deliberate deception. To seek the support of university vice-chancellors for student loans, on the grounds that loans will increase access to higher education, is to ignore the very real evidence to the contrary from countries already operating such schemes. Interestingly, that evidence against loans was recently supported in the House of Commons by his fellow minister Mr George Walden—the man now charged with reviewing student grants!

Research by the NUS and a major High Street bank of Scandinavian and North American loans schemes has revealed that, besides costing more than grants because of high initial investment and default rates, and being a nightmare to administrate, loans were a disincentive to working class, mature, women and ethnic minority students—groups currently under-represented in higher education. Mr Baker claims he wants to give them greater access! The mixture of grants and loans currently touted by the vice-chancellors as a compromise would only compound the worst aspects of both systems.

This highlights a disturbing lack of truth in higher education circles at the moment. If the vice-chancellors are prepared to abandon their commitment to increased access in order to curry favour with Mr Baker in view of rumours of more cash for universities, they should say so. That is what students will understand, whatever gloss is put on it.

If Mr Baker, hemmed in on all sides by the right-wing Conservative opinion on education that is currently plunging him into rash action on sex education, "free speech" and other conference rabble-rousers, is prepared to ignore the possible impact of student loans on access to higher education, let him do so honestly. His conference audience is hardly likely to torture him for keeping universities as elitist in their make-up as when *they* were at Oxbridge.

In deliberately misleading the academic community (who should know better) and the public on student loans, Mr Baker is playing politics with students' futures and the future of higher education. The vice-chancellors should be ashamed that they are offering hostages to fortune to a Secretary of State increasingly desperate for propaganda to support his Government's disastrous policies on higher education.

Vicky Phillips.
461 Holloway Road, N7.

Smoking: a 'not proven' verdict

From the Registrar, Royal College of Physicians.

Sir,—Mrs Moody (September 23) in criticising the letter from the president of this college, Sir Raymond Hoffenberg (September 12) tries to cast doubt on the evidence of the harmful effect of cigarette smoking.

It has now become merely perverse to dispute the overwhelming mass of evidence for this effect and one wonders why Mrs Moody does so. I know that she writes as secretary of Forest (Freedom Organisation for the Right to Enjoy Tobacco). I cannot understand the need for such an organisation.

Nobody disputes the freedom of people to "enjoy tobacco" (as long as they do not inconvenience or harm others) but before they decide to do so they should at least know that cigarette smoking is by far the largest known cause of lung cancer, as well as having many other harmful effects.

David Pyke,
11, St Andrews Place, NW1.

Cost of votes for expatriates

From Mr R. Staveley

Sir, — Comment on the low response of British expatriates to the opportunity to register as overseas electors has failed to mention what I consider to be a major factor.

Comparison has been made with the similar type of electoral scheme operated by the US, but, as all expatriates are aware, American citizens are subject to US tax anywhere in the world, although only over a certain "free" figure.

However most Britons, I am sure, regard the British taxman as considerably more rapacious than his American counterpart, and probaly feel that British expatriates would not be granted quite such a generous "tax-free" allowance.

R. Staveley.
PO Box 1017,
Manama, Bahrain.

Labour's plans will clobber Lloyd's

From Mr T. Benyon.

Sir,—I refer to Labour proposals to increase taxation on those who earn more than £27,000 a year.

Plans to clobber the so-called rich may sound fine to the envious ears of their supporters, but such policies will bring retribution in their wake. Why? Because while the Tories may have reduced the levels of taxes, they also abolished leasing and insurance relief, and tax avoidance into the bargain.

It is inconceivable that any alternative administration will reintroduce them, so high taxpayers, faced with a hike in tax rates, will either have to pay up, evade, or get out.

Labour may find such a prospect an entertaining one, but higher taxes will adversely affect Lloyd's, and thus the economy as a whole. Recently, Chancellor Lawson outlawed so-called "bond washing," a device which enabled the "names" who support the market to enjoy an element of capital gains taxation, as opposed to income taxation, to compensate them for the risks they run. But as overall tax rates were lowered, being a name is still worthwhile.

But under Labour's plans, names are unlikely to accept unlimited liability in return for a highly taxed dividend; many will resign and one of the very few British financial success stories, as well as the biggest invisible earner we have, will start to shrink.

Tom Benyon,
Chairman of the Association of Lloyd's Members 1983-85,
The Old Rectory, Adstock,
near Winslow, Bucks.

View from above

From Mr A. H. Partridge

Sir,—The article by Sir Michael Butler (September 24) concerning the Commonwealth prompts the prayer that we be delivered speedily from all those in high places who can only view such important issues in terms of how much they cost us and how much materially we gain in return.

A. H. Partridge
9 Three Acres
Horsham, Sussex

FINANCIAL TIMES

Friday October 3 1986

SPECIAL BUREAU WILL HAVE WIDER POWERS TO INVESTIGATE SERIOUS OFFENCES

UK extends major fraud laws

BY CLIVE WOLMAN IN LONDON

THE UK Government is to set up a Serious Fraud Office directly responsible to the Attorney General which will be given wider powers to interrogate witnesses and seize documents when investigating serious and complex frauds.

Sweeping changes are also to be made to the laws of evidence and procedure which will, for example, allow courts to cross-examine witnesses overseas via a live video link.

The changes were announced yesterday in response to the recommendations of the Roskill committee on fraud trials. However, the Government has rejected its most controversial recommendation, to abolish the right to a jury trial in serious fraud cases.

When the Roskill committee was set up in November 1983, many members of the Government, including the Attorney General and Director of Public Prosecutions, hoped that it would make such a recommendation. Lord Roskill, in contrast to most of his fellow lawyers, was known to support the curtailment of jury trials.

The publication of his report in January was also well-timed to coincide with mounting public concern about fraud, in particular in the City of London, which were fuelled by the publicity given to the suspected frauds at Johnson Matthey Bankers and in the Lloyds' insurance market.

But the Roskill report failed to present any hard evidence that complex fraud trials were being wrongly decided because of the failure of juries to grasp the issues. Even the police were unenthusiastic about the recommendation. In addition some of the public interest in fraud has dissipated in recent months.

Nevertheless, the Government fears that a renewed outbreak of City scandals could damage its election prospects if it was considered not to be taking tough action. Meanwhile, the number of reported frauds has been rising steadily. The Metropolitan and City police company fraud departments have been investigating more than 700 cases a year, a 50 per cent increase since 1981.

The new Serious Fraud Office (SFO), which was recommended by Lord Roskill, will collaborate with the police in investigating and prosecuting an estimated 40 fraud cases a year. The SFO will take over a case only if the amount of money at stake is more than about £5m and the details of the case are complex. At present local police fraud squads or the Fraud Investigation Group, a co-ordinating body under the Director of Public Prosecutions, have primary responsibility.

The SFO is likely to employ about 70 people with an annual budget of £5m. Its staff will be drawn from private sector lawyers and accountants and from the Government department involved in fraud investigations.

The Inland Revenue, which has traditionally retained a high degree of autonomy, will supply confidential information on taxpayers to the SFO when required.

The SFO will also be given the wider powers of investigation enjoyed at present only by the DTI's Companies Investigations Branch and not by the police.

The Government proposals, to be incorporated in the Criminal Justice Bill scheduled for the forthcoming parliamentary session, include the following changes in the laws of evidence and procedure:

- No committal trials will be necessary in complex fraud cases.
- The traditional right to silence of the defence will be curtailed in serious fraud cases, although the defence need not tell the jury in advance of what its case will be.
- Most of the restrictions on the use of documents, videos and evidence gathered overseas will be lifted in trials of all types of offences.

Bonn calls for Iceland talks on short-range N-missiles

By Peter Bruce in Bonn

ANY US-SOVIET agreement on intermediate nuclear forces (INF) at next week's summit in Reykjavik between President Reagan and Mr Gorbachev must also include a commitment to negotiate reductions of short-range nuclear missiles in Europe, West Germany made clear yesterday.

Herr Hans-Dietrich Genscher, the West German Foreign Minister, told the Bundestag (lower house of parliament) that Bonn supported the proposal for a global limit of 200 medium-range warheads on each side, with 100 each in Europe.

Bonn remained in favour of a total ban of such weapons, but the proposed interim solution, which is expected to be at the centre of the summit discussions in Iceland, would be proof that the nuclear arms race could be reversed.

The INF agreement would cover US Pershing-2 and cruise missiles based in Europe and Soviet SS 4 and SS 20 missiles, with ranges between 1,000 and 5,500km. Herr Genscher said the US had also proposed a ceiling on systems with ranges from 500km to 1,000km.

However, he added that "it must be the goal to also reduce systems with a range between 150km and 500km to a low level."

Just before announcing that he would meet Mr Gorbachev, Mr Reagan invited US allies in Western Europe to make policy suggestions that he could put to the Soviets. Bonn, said it planned to "fully use" that offer.

Bonn feels itself particularly threatened by SS 22, SS 23 and SS 25 short range missiles deployed in East Germany and Czechoslovakia after the Bonn Government agreed in November 1983 to allow the deployment of US cruise and Pershing missiles in Germany.

Despite Mr Genscher's apparent firmness in the Bundestag the Government is split about how to go about reducing short range missiles.

Feature, Page 26

UK Labour Party unites on policy

Continued from Page 1

strategic companies like British Aerospace and Rolls Royce and in sectors like oil, shipbuilding and steel is being proposed, along with expanded consumer co-operatives and local authority enterprise.

The conference also approved a radical redistributive package of social security and tax measures. In the short-term, this would lead to increases in child benefit and pensions, partly financed by higher taxes on the higher paid. The money would also be produced by ending the married man's tax allowance and by removing the upper limit on employee National Insurance contributions.

During the debate, which was dominated by calls for higher pensions, Mr Michael Meacher, Labour's social security spokesman, reaffirmed the party's intention to restore to its original form the state earnings-related pension scheme which has been cut back under current government proposals.

In response to calls for married couple's pension to be made half average earnings, he said the next Labour government would achieve this goal for those "in or about average earnings who retire in the next five years." He also talked of bringing some older pensioners within the scheme. This proposal is regarded as compatible with existing expenditure commitments if spread over the lifetime of a whole parliament.

Among the other proposals approved yesterday were independent taxation of husbands and wives and the introduction of a new reduced rate band of income tax.

THE LEX COLUMN

The Snake in the grass

If the exchange rate policy of the UK authorities is designed to keep the markets in a state of mystification, this week's official manoeuvring can be accounted a complete success. The markets do not even know whether there is supposed to be a floor price for sterling against the D-Mark, though half the City seems to think that sterling has been granted temporary membership of the EMS adjustment mechanism.

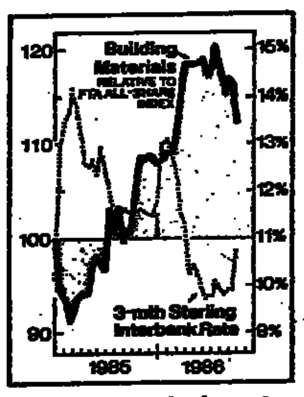
As if to scotch that belief – still more the thoughts of joining definitively over the coming weekend – intervention in the foreign exchange markets looks to have been half-hearted, and at times carried out in apparent conflict with the actions of the Bundesbank. The demonstration value of intervention in which one partner merely succeeds in appearing to sell modest quantities of dollars to the other is naturally slight; to burn the speculators needs significant off-loading of D-Marks, whether borrowed or stolen.

Though the sterling rout on Monday provoked serious expectations of a defensive base rate movement, the public mothballing of that weapon for the next week has removed a layer of protective uncertainty. The result is that although the gilt-edged and money markets were indicating on Monday that a two-point rise in base rate would probably stop the currency dealers from going short of sterling, two points would now probably be insufficient to gain the desired effect. To stop the slide by interest rate manipulation would probably now require base rates well clear of what the money markets have already discounted. At this lower level of sterling, that still means three points, if not more; clearly not the policy for conference week.

Lloyds/Continental

When Dome Petroleum is testing the bluffmanship of its creditors for the umpteenth time, it is hard not to wonder about the wisdom of buying a Canadian bank. But Lloyds' deal with Continental Bank of Canada is designed to skirt around such obvious pitfalls as non-performing energy loans.

Lloyds is buying only 90 per cent of Continental's assets, leaving behind such gems as the domestic natural resource book and the Latin American loan portfolio (where Lloyds is already quite well-stocked).



What Lloyds gets for its C$200m is the prospect of close to C$20m of earnings this year, 55 branches and a balance sheet of C$6bn. The purchase is analogous to that of Schröder Munchmeyer Hengst in that Lloyds would presumably not have got its foot in the door before Continental slipped into liquidity problems.

Unlike SMH, however, which was worth buying for its securities side despite its banking disasters, Continental remains a basically sound commercial banking business – which is what Lloyds wants.

Continental is no Standard Chartered, but then it scarcely restricts Lloyds' options in regard to Standard if it picks off the occasional smaller target while waiting for the anniversary of its failed takeover.

Ibstock Johnsen

Ibstock Johnsen's attempts to convert Europe and the US to high-quality brick have not been a great success: Ibstock was obliged to pull out of the Netherlands in 1983, and its American business (bought in 1979) only turned into profit last year, too late to forestall a rights issue. But yesterday's interim results, showing profits before tax up a third at £8.5m, suggest the American nut has been cracked. Sales in dollars are up 17 per cent and a $2m profit has been booked.

This has occurred at a time of relatively buoyant US housebuilding activity. But the main benefit has come from Ibstock raising the quality of its bricks towards UK standards, marketing them to less price-sensitive customers and broadening the range of bricks in each works so that others could be closed.

The tax-sheltered earnings potential of the US is quite substantial: a business that should make £4m this year could soon be making half as much again, even at margins that do not stand comparison with the UK – though these actually suffered a little in the first half from the commissioning of new plant. With interest and tax charges and capital expenditure all falling, the US operation should allow Ibstock to show double-figure earnings growth despite rights issue dilution: at 174p, up 2p, Ibstock is valued at 10 times this year's probable earnings.

Blacks

Any takeover battle that involves a deficit in net assets and a slow left-arm spin bowler of international reputation is bound to be somewhat out of the ordinary; but the case of Blacks Leisure is also rather a dismal affair. Having reversed into a set of camping and leisurewear stores in 1984 without recourse to the financial rear-view mirror, Blacks ceased to be a going concern except on the basis of an agreed offer from Sears; but a couple of wild deliveries from Mr Phil Edmonds has sent Sears scampering, leaving Blacks' shareholders and employees to their fate.

Even for holders of penny-stocks, the shareholders of Blacks contained a more than usually large number of duffers. Despite an offer of £3m for a business with negative net worth and a cash-flow crisis, nearly half the register did nothing or complained about the premium offered preference shareholders. In fact, there was never much change that Sears would want to maintain a listing for the minority in Blacks let alone go on servicing high-coupon, high-voting preference capital in a business about to go through the wringer.

If Mr Edmonds hoped to pass on the Blacks' assets and tax-losses to Sears and retain a cash shell to reverse his own businesses into, he has pushed his luck too far. Blacks looks headed for receivership and the sale of its assets to pay its creditors.

New chief for US oil services company

By David Owen in New York

IN A SURPRISE move, Schlumberger, the US oilfield services and electronics group, has announced the election of Mr Evan Baird to the posts of chairman, president and chief executive officer, replacing Mr Michel Vaillaud.

Mr Baird, a former executive vice president and director, joined the company in 1968 and has held a variety of positions in Europe, Africa, the Middle East and Far East.

Mr Vaillaud, appointed in September last year, was the hand-picked successor of Mr Jean Riboud, the charismatic Frenchman who headed the company for 20 years during a period of impressive growth and profits. Mr Riboud died a month after passing the torch to Mr Vailland.

The company has since suffered heavy damage as a result of depressed condition in the oil services industry. In July it reported a 74 per cent drop in second-quarter profits to $55m from $212m in the same period a year earlier. Second-quarter 1985 performance was affected by a non-recurring charge of 8 cents a share.

The change has prompted speculation regarding group strategy, with analysts projecting that Mr Baird's appointment may presage a tougher line towards underperforming assets, including the Fairchild semiconductor business.

"Fairchild may be sold in the next six to 12 months," said Mr Jim Crandell, an oil services analyst and vice president of Salomon Brothers in New York. He did not believe that Mr Baird's appointment would spark any major change in the group's recent strategy of price discounting to increase market share.

Many analysts expected cost-cutting efforts, already apparent under Mr Vaillaud, to be redoubled while some pointed to a possible major asset write-down in the company's fourth quarter.

Morgan Grenfell in record deal

Continued from Page 1

a new integrated broker-dealer can do using all our resources."

Morgan Grenfell is among the British merchant bankers competing to be named as advisers to the French Government in the denationalisation programme. So far, Kleinwort Benson is the only foreign bank to have been chosen. Along with Credit Commercial de France (CCF) it will be advising the Government over the privatisation of Saint Gobain.

Gorbachev hints at fresh purge of old guard resisting reform

BY PATRICK COCKBURN IN MOSCOW

THE HARSH attack on opponents of change within the Soviet Union by Mr Mikhail Gorbachev, the Soviet leader this week may be the opening shots in a fresh purge of Government and Communist Party officials, according to diplomats in Moscow.

Mr Gorbachev told a meeting in the Kremlin that "the old is not giving up without a fight." He said conservative elements were trying to contain new reforms "within the framework of obsolete dogmas and stereotypes."

The speech is the latest in a series of increasingly angry attacks by Mr Gorbachev on the resistance within the party and state of reform of the economy and political structure. During a visit to the Soviet far east at the end of August, Mr Gorbachev revealed that the next plenum or special meeting of the Communist Party Central Committee, the ultimate political authority in the Soviet Union, would be on "cadres policy" – that is the type of officials who should be appointed.

During his first 18 months in office, Mr Gorbachev has appointed new men to the Politburo and senior government positions. But the vast mass of officials were appointed first under Mr Leonid Brezhnev, leader from 1964 to 1982. Mr Gorbachev's remarks during heavily publicised tours of the Soviet far east at the end of August and the north Caucasus in September contain increasingly menacing remarks against conservative officials who oppose democratic and economic reform. Many may now be removed from office.

In the eastern city of Khabarovsk, Mr Gorbachev said: "A proportion of our officials at all levels has responded with dismay to people's heightened and better informed reaction to what is happening in society." He accused officials of quietly getting rid of reformers by denouncing them as demagogues and trouble makers.

Mr Boris Yeltsin, the powerful head of the Communist Party in Moscow City since last December and a non-voting member of the Politburo, has repeatedly expressed his frustration at the slowness of reform. To illustrate the degree of opposition to his efforts to clean up Moscow, he is reported to have held up two letters at one meeting which contained death threats against him and said: "Comrades, it has come to this. This is what we are up against."

The increasing hostility between reformers and conservatives within the state and Communist Party apparatus has been sharpened by two recent heavily publicised corruption trials. The Minister of Cotton in the Republic of Uzbekistan, centre of cotton growing in the Soviet Union, was sentenced to death for exaggerating the size of the cotton crop by between 500,000 and 900,000 tons over a six year period. The money paid by the central Government for the non-existent cotton was pocketed by the Ministry in one of the biggest swindles in Soviet history.

A few weeks later, the heads of the organisation which effectively controlled supplies to Moscow's retail trade were all given sentences of up to 15 years for systematic corruption. The head of Gastronom Number One in Gorky Street, one of Moscow's best known shops, had already been shot for his involvement in this racket.

Lloyds pays C$200m for 90% stake in Toronto bank

BY BERNARD SIMON IN TORONTO

LLOYDS BANK of Britain is to become the biggest foreign bank in Canada by buying 90 per cent of the troubled Toronto-based Continental Bank of Canada for C$200m (US$153.8m).

Sir Jeremy Morse, Lloyds chairman, said in Toronto yesterday that the purchase, due to take effect on November 1, would enable Lloyds to continue its strategy of linking strong local businesses in leading economies to its global network of trade finance, personal banking services, correspondent banking and capital market operations.

Mr Len Kingshott, Lloyds director of international banking, said that Lloyds would have no problem raising the funds for the purchase "within a short period of time."

Continental, with assets of C$5.9bn and 57 branches and representative offices, is Canada's seventh largest bank. It has struggled in the past year to regain deposits lost during a run on small banks in late 1985 precipitated by the collapse of two small Alberta institutions heavily exposed to the troubled energy and real estate sectors.

The crisis caused the disappearance of four of Canada's 14 domestically-owned banks. Continental has been kept afloat by credit lines totalling C$2.9bn from the Bank of Canada and the six largest Canadian banks and by short-term advances from the central bank.

Mr David Lewis, Continental's chairman, said yesterday that the Canadian bank had approached Lloyds through the US investment bank Morgan Guaranty in an effort to find a long-term solution to its problems. "Simple prudence required us to recognise that we are not only a small bank in Canada but in the bigger financial ocean we are a very small fish indeed and we would continue to be so even if we recovered all the deposits we lost last year."

Sir Jeremy said that Continental's recent problems were not a big concern. "We see them as a sound bank which got caught up in a general atmosphere of a lack of confidence."

Lloyds will repay Continental's debts to the Bank of Canada, totalling C$2.4bn, after the acquisition is completed. Sir Jeremy said that Lloyds planned to negotiate transitional repayment arrangements with the central bank.

Lloyds' purchase excludes Continental's Latin American loan portfolio, its leasing business and a C$18m loan to a domestic resource company, understood to be Dome Petroleum.

The British bank plans to merge Continental with its wholly owned Canadian subsidiary, Lloyds Bank Canada, which was formed in 1982 and has assets of almost C$500m. Continental's management will remain in place for the time being and will be joined by Mr John Armstrong, president of Lloyds Bank Canada, who will develop the enlarged bank's merchant and corporate banking operations.

In addition, a senior, as yet unidentified Lloyds official will be assigned to co-ordinate the merger. The merged institution will be known as Lloyds Bank Canada.

The Canadian Government has approved the takeover, which is expected to provide extra competition in a financial system dominated by six domestic banks and the local subsidiary of Citicorp of the US which, with assets of C$4.6bn, has up to now been the largest foreign bank in Canada.

Foreign banks are collectively limited to 16 per cent of the total domestic assets of the Canadian banking system.

Continental's shareholders will be asked to approve the transaction at a special meeting on October 31. The bank's largest shareholder is Carena Bancorp, a financial company controlled by the Toronto branch of the Bronfman family, with an interest of 19.3 per cent.

Novel way into Canada, Page 29

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	28	82	Dubrovnik	S	23	73	Malta	—	—	—	Rhodes	S	24	75
Algiers	S	26	79	Edinburgh	F	13	55	Manchester	F	15	59	Rio de J'o	S	27	81
Amsterdam	C	15	59	Faro	S	24	75	Manila	S	33	91	Rome	S	25	77
Athens	S	21	70	Florence	S	26	79	Melbourne	—	—	—	Salzburg	S	23	73
Bahrain	C	37	99	Frankfurt	S	16	61	Mexico City	C	24	75	San Francisco	S	24	75
Bangkok	C	30	86	Funchal	C	22	72	Miami	C	31	88	Seoul	F	18	64
Barcelona	R	21	70	Geneva	S	19	66	Milan	S	22	72	Singapore	[illegible]	26	79
Beirut	C	24	75	Gibraltar	S	23	73	Montreal	C	21	70	Stockholm	S	16	61
Belfast	C	13	55	Glasgow	C	14	57	Moscow	D	10	50	Strasbourg	S	21	70
Belgrade	S	22	72	Guernsey	S	15	59	Munich	S	21	70	Sydney	S	28	82
Berlin	C	17	63	Helsinki	C	11	52	Nairobi	F	27	81	Taipei	C	26	79
Biarritz	S	21	70	H. Kong	S	27	81	Naples	—	—	—	Tangier	—	—	—
Bombay	F	30	86	Innsbruck	—	—	—	Nassau	S	31	88	Tel Aviv	S	26	79
Bordeaux	S	23	73	Inverness	F	11	52	New Delhi	F	30	86	Tenerife	F	25	77
Brussels	C	17	63	Islamabad	S	32	90	New York	C	27	81	Tokyo	S	26	79
Budapest	S	21	70	Istanbul	F	18	64	Nice	S	23	73	Toronto	C	19	66
B. Aires	—	—	—	Jakarta	R	30	86	Nicosia	C	29	84	Tunis	F	27	81
Cairo	F	27	81	Jersey	C	15	59	Oporto	S	25	77	Valencia	F	23	73
Cape Town	S	25	77	Jo'burg	F	21	70	Oslo	C	15	59	Venice	S	21	70
Caracas	C	27	81	Lima	C	17	63	Paris	S	22	72	Vienna	S	22	72
Casablanca	—	—	—	Lisbon	S	24	75	Peking	S	24	75	Warsaw	S	22	72
Chicago	C	16	61	London	F	18	64	Prague	S	20	68	Washington	F	21	70
Cologne	F	17	63	Los Angeles	S	20	68	Reykjavik	C	0	32	Zurich	S	17	63
Copenhagen	C	14	57	Luxembourg	S	19	66								
Corfu	S	26	79	Madrid	F	21	70								
Dallas	—	—	—	Majorca	S	25	77								
Dublin	—	—	—	Malaga	—	—	—								

Readings at mid-day yesterday:
C–Cloudy D–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

S.African threat backfires in US

Continued from Page 1

Republicans have also been worried that unless they took a strong stand on the sanctions issue their opponents would be able to use their president's strong opposition to firmer economic sanctions against them in the polls.

Mr Botha last night strongly defended his action. "If the US robs us of markets, we have to look after the interests of our farming community. But we can get grain from other countries, and this will be transported freely," he said.

This year South Africa imported a mere 160,000 tonnes of wheat from the US worth, about $20m, although last year it imported 800,000 tonnes of maize worth around $300m to make good for drought-induced domestic crop losses. A further 90,000 tonnes of US grain have been shipped through the South African transport network to countries such as Zambia, Lesotho and Botswana this year. The US recently signed a $10m food aid agreement with Zambia for the import of grain and vegetable oils.

Southern Africa as far north as Zaire is heavily dependent on South African ports, roads and railways for its foreign trade, but South Africa, as well as Zimbabwe and Malawi, are normally net food exporters, except in drought years. Zimbabwe, with over 1m tonnes of maize in store, is trying to persuade farmers to cut back on maize planting this year.

Mr Botha strongly defended his right to speak directly to US senators and rejected Sen Kennedy's criticism.

Stefan Wagstyl in London writes: Gold and platinum prices were sharply up yesterday on fears of South African counter-measures to US sanctions.

In London, platinum closed $19.75 up at $579.50 an ounce and gold ended $9.875 higher at $432.875 an ounce. In New York, where much of the speculative activity was centred, the platinum futures contracts on the New York Mercantile Exchange rapidly climbed to their daily maximum permitted rise of $25 an ounce in heavy trading.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Friday October 3 1986

THE SMALLEST OF THE 'BIG FOUR' UK CLEARING BANKS DETERMINED TO MAINTAIN EXPANSION

Lloyds finds a novel way into Canada

BY DAVID LASCELLES, BANKING CORRESPONDENT, IN LONDON

WHEN its £1.3bn ($1.8bn) bid for Standard Chartered Bank failed last summer, Mr Brian Pitman, Lloyds Bank's chief executive, said Lloyds would continue to make acquisitions where appropriate. Yesterday's deal with the Continental Bank of Canada shows that the smallest of the UK's "Big Four" clearing banks is still determined to maintain its expansionary momentum, even if the choice of bank left some observers a little puzzled by the rationale.

Canada has not been top of the list for foreign bankers: it restricts the activities of foreign banks. The banking sector – CBC included – has also had more than its share of problems with failing oil and natural resource companies, and the consumer market is strongly dominated by the established Canadian chartered banks.

Although CBC has been on offer for months, other foreign banks are wary of buying fully fledged banking businesses in foreign countries because of the management problems.

But Lloyds, chaired by Sir Jeremy Morse, has made a point of bucking the recent banking trends. The thrust of its international growth has been directed more at conventional banking markets, such as trade finance and corporate lending, than the more fashionable securities markets, and it has not been afraid to buy businesses in places where it sees profit possibilities.

The opportunity to buy its way into the Canadian market was what attracted Lloyds to CBC, because this will get it over the entry barriers that foreign banks usually complain of. It is also securing the services of the existing management, including Mr David Lewis, chief executive.

The purchase is highly selective: Lloyds is not actually buying the bank but those parts of CBC's assets and liabilities that it finds attractive. With its high exposure to Latin America, it is leaving behind CBC's Third World loans.

It has also said no to CBC's exposure to a large unnamed resource company, widely believed to be Dome Petroleum.


Sir Jeremy Morse

Although CBC suffered a run on its deposits last year and had to be rescued by other Canadian banks, Lloyds says that the business it is taking on is basically sound and healthy.

"We're buying a core business," said Mr David Pirrie of Lloyds International Banking Division in London last night. "It has a good critical mass of customers and a good geographical spread. We're getting our hands on the franchise."

Apart from enabling Lloyds to attack the local market, CBC will also act as an outlet for its other global products.

A distant analogy is with Lloyds' acquisition three years ago of Schröder Münchmeyer Hengst, the troubled West German investment bank. Through that deal, Loyds has established itself much closer to the heart of the German market than other foreign banks which have started from scratch. Although Lloyds had to restructure and recapitalise SMH, the bank is yielding profits.

On the other hand, Lloyds has just sold its local banking business in California because the returns it was producing failed to justify the investment.

To secure a place in the Canadian market, Lloyds was willing to pay a premium of some C$35m (US$26.9m) over the net value of the assets it is purchasing from CBC. The deal will be financed out of Lloyds' own cash resources. It will make Lloyds the largest foreign bank in Canada with about C$6bn of assets.

The broader question raised by the acquisition is where it leaves Lloyds' other expansion plans. Coincidentally, news of the deal came amid an announcement from US Federal Reserve Board that it had approved Lloyds' request to raise its stake in Standard Chartered to 29.9 per cent. Lloyds needs this permission because Standard owns a large bank in California.

The CBC deal does not cancel or substitute for Loyds' interest in Standard Chartered, which it still hopes to realise. It had been under negotiation since January this year and would have gone ahead even if Lloyds had won its battle for Standard.

Mr Pirrie also said last night that Lloyds had not lost its desire to expand in the Asian market.

Humana to show $131m after-tax charge

By Anatole Kaletsky in New York

HUMANA, one of the largest US hospital and health care companies, yesterday announced pre-tax charges of around $232m to reflect losses on several long-term health insurance contracts and the disposal of unprofitable facilities and hospitals in Mexico and the US.

The charges will mean a loss of $106m to $111m in the fourth quarter of Humana's accounting year, which ended on August 31.

The company's projected fourth-quarter loss will result in a profit of $53m to $58m on revenues of $3.4bn for the whole of last year, Humana said.

This contrasts with the $216m profit a year earlier and reflects the growing financial difficulties faced not only by Humana but by the whole US health care industry.

Humana's immediate problems appear to be connected primarily with its costly foray into the medical insurance business. Insurance losses accounted for $70m after tax, or 53 per cent, of the charges announced yesterday.

The total after-tax charge would be $131m, Humana said. At a deeper level, however, the losses also reflect the intensifying pressure on the health care industry which has resulted from the tighter control of medical costs imposed from 1983 onwards by the federal Government.

Humana, previously a highly successful hospital operator, decided to enter the insurance business in early 1984 largely as a result of falling occupancy rates and profits in the hospital business.

By running health insurance plans, the company had hoped to channel more patients into its own facilities.

Union Carbide to sell electronics unit

BY OUR NEW YORK STAFF

UNION CARBIDE, the US chemical company which has been undergoing major restructuring in the wake of the Bhopal disaster in India, is to sell its electronic components businesses.

These businesses, which manufacture and sell tentalum, ceramic and film capacitors to the electronics industry, have an annual turnover of around $200m. Union Carbide said yesterday that a number of potential bids would be evaluated. The sale is expected to be completed in six months.

The businesses would seem to be a natural fit for companies in the electronics industry which Carbide said would be able to give the electronics components business the necessary support to advance its leadership position.

Since the disaster of December 1984, when at least 2,000 people died after a gas leak from Carbide's Bhopal pesticide plant, the company has been under pressure from at least two sources. In the courts the Indian Government is continuing litigation in a suit claiming at least $1bn in damages. In the stock market, GAF, a small financial conglomerate, launched a takeover bid for Carbide last year.

To defend itself Carbide took on more than $5bn in debt, launched an aggressive equity retirement programme and has been selling off its non-chemical operations. The consumer products business, which included Ever Ready Batteries, was sold in the spring, and the agricultural products unit was put up for sale in July.

Mr Robert Kennedy, president and chief executive, who is to become chairman in November, has said that its ultimate business will be pared down to three key areas where it has market leadership – polyethylene, industrial gases and graphite.

● Separately, Rhône-Poulenc, the French state-owned chemicals and pharmaceuticals group, said it was bidding against four other companies to buy Carbide's agrochemicals division, Reuter reports from Paris.

Rhône-Poulenc's agrochemicals sector had turnover of FFr 6.4bn ($969m) in 1985, equal to 11.5 per cent of the consolidated turnover of FFr 56.1bn.

Turnover for the equivalent division of Union Carbide was about FFr 4bn in 1985, the company said.

Pechiney suffers sharp fall in first-half profit

BY PAUL BETTS IN PARIS

PECHINEY, the French nationalised aluminium and special metals group, reported yesterday a sharp fall in first-half consolidated net earnings to FFr 104m ($15.7m) compared with profits of FFr 451m in the first six months of last year. Sales also declined to FFr 18bn in the first half from FFr 20bn in the year before period.

The company, which blamed the earnings decline on the impact of the lower dollar on its aluminium business, the problems of the ferro-alloy markets and continuing losses in its copper transformation operations, said earnings for the whole of this year were also expected to be sharply lower than in 1985.

The company also said that the latest results did not contain any provisions for the eventual closure of two of its aluminium plants in France at Noguères and Rioupéroux. Pechiney has currently suspended a decision to close down these two plants to review the outlook for aluminium production in France. In particular, Mr Jean Gandois, the new chairman of the French state group, is seeking improved electricity rates from Electricité de France, the French state utility, to make Pechiney's domestic aluminium production more competitive.

Marriott lifts its earnings

By David Owen in New York

MARRIOTT, the Washington-based hotels and catering chain, lifted third-quarter net earnings to $49.2m, or 36 cents a share, up from $44.9m, or 33 cents, a year earlier.

In the same period, sales jumped 33.6 per cent to $1.30bn, in part reflecting the acquisition of the Saga Contract food-service group, which Marriott completed in the latest quarter. The company said that Saga's integration was proceeding "ahead of schedule"

Excluding Saga, third-quarter sales, net income and earnings per share were up 18 per cent.

The latest results bring net earnings for the first nine months to $135.5m, or 99 cents.

National Semiconductor reports reduced losses

BY LOUISE KEHOE IN SAN FRANCISCO

NATIONAL Semiconductor, one of Silicon Valley's largest semiconductor and computer makers, reported reduced losses for the quarter ending September 21, providing a glimmer of hope for a recovery in the beleaguered US semiconductor industry.

Sales for the fiscal first quarter rose to $501.1m from $408.6m last year. The company reported a net loss of $1.4m, or 4 cents a share, compared with a net loss before extraordinary items of $57.9m, or 64 cents, in the same quarter a year ago.

National restated its fiscal 1986 earnings in July when the company changed its method of recognising revenue on sales to distributors.

● Advanced Micro Devices, the Silicon valley-based semiconductor manufacturer, will take a $15m-$20m charge against earnings for the quarter ending September 28, bringing the company's anticipated losses for the quarter to a record $43m-$48m.

The expense results primarily from the consolidation of manufacturing operations at AMD's Sunnyvale, California, headquarters. AMD declined to elaborate on further aspects of the anticipated charge.

GBL surplus up 27%

BY QUENTIN PEEL IN BRUSSELS

GROUPE BRUXELLES Lambert (GBL), Belgium's second-largest financial and industrial holding company, yesterday reported a 27 per cent increase in profits for the first half of the year, up from BFr 4.039bn ($96m) in 1985 to BFr 5.135bn.

The group, now run by industrialist Albert Frère, forecast a further dividend increase but declined to extrapolate the half-year results for a full year because of the "seasonal character" of its portfolio income.

GBL singled out developments in its banking interests in particular as contributing to the good first-half performance.

Drexel Burnham Lambert in New York, which is 34.8 per cent owned by Lambert Brussels Corporation, itself 56 per cent owned by GBL, "continues to produce remarkable results," the group said. The company ranked third in the US for public issues on the American market, and first half profits had matched the record levels of 1985.

GBL and Henry Ansbacher Holdings has sold at a profit its 21 per cent interest in Brown Shipley, the London accepting house and financial services company, largely acquired last April, the statement said.

Bond buys HK Land residential portfolio

By Kevin Hamlin in Hong Kong

BOND CORPORATION, the Australian brewing, property and industrial group, yesterday agreed to buy the bulk of Hongkong Land's residential property portfolio for HK$1.425bn (US$ 182m) through an affiliate in a move that it said "will be the nucleus of a major international thrust by the group."

The sale was concluded so rapidly that Bond is still in the process of finalising the structure of the "affiliate" *which will eventually hold the* property. The sale is scheduled to be completed by December 15.

The sale enables Land to reduce its debt further. Mr Nigel Rich, chief operating officer, said: "Group debt will be reduced through this sale to less than HK$7bn by year-end with borrowings as a percentage of *shareholders funds then falling* to around 40 per cent." Borrowing stood at some 60 per cent of shareholders funds earlier this year.

The reduction to 40 per cent assumes that the proposed demerger of Dairy Farm, a food manufacturing, distributing and retailing subsidiary, is approved by shareholders this month, a step that is expected to reduce debt by around HK$1.5bn.

HK Land, which came close to insolvency in 1983 when Hong Kong's property market *collapsed, had trimmed* net debt from over HK$14bn at the end of 1984 to less than HK$10bn at the beginning of this year.

The sale was interpreted by Hong Kong's stock market as a significant boost to confidence in the future of the territory. The Hang Seng Index put on almost 30 points for the day to close at a record high of 2,120. HK Land shares closed HK$0.10 higher at HK$7.30.

Indications are that Bond is planning a public listing in *Hong Kong. A statement from* the group said: "It is a logical area to have a public arm, representing as it does the Gateway to the People's Republic of China and one, if not the, pre-eminent business and trading centre in Asia."

Chase sues Wha Kwong Shipping

CHASE MANHATTAN Bank has commenced legal proceedings against the guarantors of its loan to the Wah Kwong Shipping and Investment Company (Hong Kong) group, Reuter reports from Hong Kong.

The bank filed writs with a Hong Kong court against Wah Kwong and its owners Mr T. Y. Chao, Mr Frank Chao and Mr George Chao.

Chase said it had also arrested the 17,971 dwt Nigerian Venture, the third of three Wah Kwong ships mortgaged to the bank, in Durban, South Africa, following the arrests of the 60,366 dwt Eastern Ranger and the 61,751 dwt Sabodine Venture last month.

The bank said it took legal action because Wah Kwong filed a suit in Jacksonville, US, to block the sale of Eastern Ranger, despite an earlier agreement between the two *sides on the disposition.*

The bank said it was opposed to Wah Kwong's proposal to include the Eastern Ranger and the Sabodine Venture as members of a "core fleet" which will finance the restructuring of the some US$850m debt of the group.

It declined to disclose its exposures to Wah Kwong but creditors involved in the group's restructuring estimated that it is between $25m and $30m.

Brierley pays A$140m for 17% of Woolworths

BY ROBERT KENNEDY IN SYDNEY

MR RON BRIERLEY'S Industrial Equity yesterday announced that it has paid A$140m (US$88m) for a 17 per cent stake in Woolworths the troubled Australian retailer, and to increase it to 19.9 per cent.

IEL has paid up to A$3.80 a share for Woolworths, a price that values the company at about 56 times the depressed A$15m the retailer is expected to earn in 1986, though it is only slightly above the A$3.70 level at which the shares closed on Wednesday.

The key to control of Woolworths will be the attitude taken to any bid by the largest shareholders, Safeway of the US (19.9 per cent) and Life Fund, the AMP Society (17.8 per cent).

Safeway is expected to be a willing seller after November 1, a date that is significant for US tax reasons. The A$190m it *might* exject to raise form selling its Woolworths shares would help retire part of the massive US$ 4bn of debt taken on earlier earlier this year to finance the leveraged buyout engineered to repel a hostile take-over from Dart Group.

IEL is well placed financially to bid for Woolworths, as it demonstrated with its three-fold profit increase earlier *this week.* Mr Brierley's Australian company has more than A$1bn available in cash and undrawn credit facilities.

● Brierley Investments (BIL), Mr Brierley's New Zealand holding vehicle, expects to post a profit rise of 70 per cent to 100 per cent when it announces its results on Friday for the year to end-June, Reuter reports from Wellington.

Profit, excluding tax, minorities and extraordinaries but including retained profits from *associated* companies, *is* forecast in a range between NZ$ 160m (US$78m) and NZ$ 192.5m, compared with NZ$ 93.41m a year earlier, according to financial analysts in New Zealand. The profit figure for the first six months to December 1985 was NZ$ 52.96m

North Kalgurli lifts net profits

BY KENNETH MARSTON, MINING EDITOR

NORTH KALGURLI Mines, the Australian gold producer, 28.2 per cent owned by Mr Alan Bond group's Metals Exploration, lifted net profits for the year to June 17 to A$6.98m (US$4.4m) from A$5.43m.

A final dividend of 2 cents leaves the total payment unchanged at 4 cents a share on capital prior to the rights issue in July.

Gold production in Western Australia rose 17.3 per cent to 91,712 oz. In the current year it *is expected to reach 130,000 oz.*

● Meanwhile, an unexpectedly poor result for the year to June 30 has come from Poseidon, another Western Australian gold producer, which also has non-gold interests. Net profits dropped to A$429,000 from A$5.79m in the previous year. The dividend is maintained at 10 cents.

Net profits were reached after depreciation of A$4.56m against A$149,000, interest, tax and minorities, but before a net extraordinary loss of A$8.06m compared with a profit of A$294,000.

The company said profitability in the current year has been enhanced by the rise in the Australian gold price to over A$600 per oz from an average A$476 in 1985-86. Poseidon's year-end liquid assets amounted to A$19m.

● Pancontinental Mining is making a share offer for the balance of its 47.8 per cent-owned Pancontinental Petroleum *to* conserve the latter's assets and reduce overheads. The terms are one Pancontinental Mining share for every 20 fully-paid shares of Pancontinental Petroleum and one Pancontinental Mining for every 250 partly-paid shares.

Garuda admits improper management caused losses

BY JOHN MURRAY BROWN IN JAKARTA

GARUDA, Indonesia's national airline, has suffered losses of over US$12m as a result of improper management in the past seven years, according to Mr R. A. J. Lumenta, the company's managing director.

In a frank admission much in keeping with his image as *Garuda's new "Mr Clean,"* Mr Lumenta singled out falsified cargo bookings as the main cause of the losses. Recent inspections have also uncovered ticket sales malpractice, the sale of faked and used tickets and the illegal manipulation of Garuda's sales computer system. As a result, Mr Lumenta said agreements with five major travel agents in Jakarta had been cancelled. Like all state-run companies in Indonesia, Garuda's accounts are not made public.

However, Mr Lumenta made revenue projections for 1986 of US$790m, up 16 per cent on the US$679m of 1985. Projections for 1987 were US$853m. In the past year Garuda has made improvements in seat occupancy, its cargo business and new international flight services. Cargo volume has increased by 20 per cent this year. Mr Lumenta said that a new automated ticket system would also be introduced.

For all the optimism, Garuda's financial worries continue. Following the recent 45 per cent devaluation of the rupiah the company announced it was negotiating with foreign creditors to reschedule its debts estimated at more than *US$1.1bn. Over 45 per cent of* total company costs are incurred in dollars.

Further decline at Tradegro

By Jim Jones in Johannesburg

TRADEGRO, the South African retailing and wholesaling group formerly known as Kirsh Trading, suffered a further profit deterioration in the year to June 30 although it increased turnover and completed a major capital restructuring.

Turnover rose to R3.71bn ($1.66bn) from R2.93bn, but operating profits fell to R6.7m from R 56.5m and the pre-tax loss widened to R42.9m from R13.1m.

Tradegro's principal subsidiary is the Checkers supermarket chain.

INTERNATIONAL CAPITAL MARKETS and COMPANIES

PLM sees 10.4% drop in earnings

BY SARA WEBB IN STOCKHOLM

PLM, the Swedish packing group, reported a 10.4 per cent drop in earnings for the first eight months of 1986 and repeated its forecast for lower earnings for the whole year.

Earnings – after extraordinary items and before allocations and taxes – were SKr 78.4m ($11.3m), compared with SKr 87.5m in the first eight months of 1985. Earnings (before allocations and taxes) for the whole of 1985 were SKr 163.4m.

Invoiced sales for the first eight months rose 8.25 per cent to SKr 2.583bn, compared with SKr 2.386bn in the corresponding period last year.

PLM and Ball Corporation jointly own a beverage can plant in Berlin which has eaten up capital in the last two years. PLM has charged SKr 16m against its operating profits for the first eight months of 1986 for this project.

Another SKr 8m will be charged against operating profits in the next four-month period. The group reported strong increases in earnings in the PLM glass division and PLM Sellbergs division.

The glass division, which makes glass bottles, showed a 26 per cent increase in earnings (before financial and extraordinary items) to SKr 40.1m while the Sellbergs division showed a 25 per cent rise in earnings to SKr 17.1m.

The PAC division, which makes drinks cans and includes the Berlin plant, had earnings of SKr 42.8m, compared with SKr 49.7m in the first eight months of last year. However, it reported better earnings in the May–August period of this year, and the group said that the plant had been under some pressure from strong customer demand due to the increased consumption of canned beer and other drinks.

Production capacity is to be increased in order to meet the demand in future.

The beverage can plant in Berlin is still running at a loss, chiefly because of low prices for the products. However, the company said that efficiency at the plant had improved due to cuts in the workforce, and so both PLM and Ball Corporation decided to subscribe further capital during 1986.

FIAT AND FORD STEP INTO THE RING FOR CONTROL OVER ITALIAN CAR MAKER

Sealed envelope on Alfa Romeo

BY JOHN WYLES IN ROME

A QUIET air of hopeful celebration surrounded the Iri headquarters in Rome's Via Veneto yesterday, where the view was that at long last the future of the troubled Alfa Romeo may have been decided.

Finmeccanica, the Iri subsidiary which controls Alfa, had within two hours on Wednesday, received detailed proposals from Ford, which would allow the US company to take a majority stake within three years, and a counter-proposal from Fiat, which will be fleshed out soon.

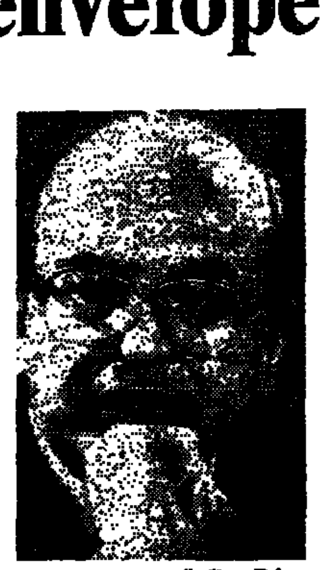
The Italian Government will therefore have a choice between an "Italian solution" for a company whose name is dear to the Italian heart and a strategic partnership with the world's second-largest multinational motor company.

"Even last year, no-one would have bet a dollar on Alfa's future. So obviously we are very pleased," said a Finmeccanica executive yesterday.

On the face of it, one wonders if any contest will take place if the Turin company comes up with proposals at least as good as Ford's, and Mr Gianni Agnelli, Fiat chairman, has already asserted that they will be better. Will this Government, could any Italian Government, allow control of Alfa to move to North America?

"No-one is prejudging at this stage," said Finmeccanica yesterday despite the already stated preference of Mr Bettino Craxi, the Prime Minister, for an "Italian solution."

Although the trade unions, whose views could be extremely influential in the final decision, are leaning in the same direction, they will remain publicly cautious until the details of Fiat's proposals are known.



Mr Bettino Craxi, Italian Prime Minister

Fiat said yesterday that these would be finalised in about 10 days so that Finmeccanica's undertaking to reply to Ford by November 7 can be honoured. Until yesterday Turin was insisting that it must first know details of what Ford has put on the table.

But Finmeccanica is adamant that this is a sealed envelope exercise and that Ford's offer is, and will remain, "top secret" until Fiat's proposals are tabled. So Fiat now says that it will press ahead and needs only to update its "technical information" in the light of developments since it was last in negotiations a year ago on a link with the state company.

These foundered in the early spring when Iri-Finmeccanica turned to Ford after judging that Fiat's proposals for a joint venture failed to meet Alfa's requirements. The competition with Ford has persuaded Turin to travel much further than it was ready to then.

Fiat's five guidelines, around which its final offer will be dressed, begin with readiness to take an immediate majority stake in Alfa. They go on to promise to maintain the present structure of the company, to "enrich and develop" it, to safeguard its sporting image and technical know-how, including its "boxer" and V6 engines, and contain a firm undertaking to avoid redundancies.

The promise on jobs may give Fiat an important edge on Ford. The US company is also thought to be ruling out redundancies, but according to leaks in the Italian press its plan would cut the 28,500 workforce by around 10,000 by the early 1990s. Finmeccanica seems to have decided that this is essential for raising productivity and for bringing Alfa, which has not made a profit for 13 years, out of the red.

How to fund Alfa's losses before its projected break-even in 1989 and what to do about its debits nearly caused the negotiations with Ford to stumble. The US company is believed to be ready to shoulder losses in proportion to its shareholding, but it remains to be seen how Alfa's debt of more than $1bn will be dealt with.

Ford is said to be ready to pay around $90m for its initial 20 per cent shareholding, which would be raised to 51 per cent after three years.

The central point of the rival Ford and Fiat proposals will be how control of Alfa fits into their broader international strategies. Its 6.5 per cent share of the Italian market would proportionately be a bigger boost for Ford – which holds only 3.8 per cent – than for Fiat, with its 53 per cent. Its 1.6 per cent share of the closely contested European market would be valuable to both.

Ford plans to run the two Alfa plants at Arese, near Milan, and Pomigliano, near Naples, at their capacity of 450,000 vehicles a year (they are currently running near 190 000) and, according to Automotive News, Detroit publication would eventually produce a new Ford global car at Pomigliano.

The same source says that in the early 1990s Alfa would assemble a Ford Sierra replacement with a measure of Alfa styling and componentry for the European market.

Just how the rival bids will be measured is unclear. The initial judgments will be made at Iri-Finmeccanica and a recommendation will be made to Mr Clielio Darida, the minister of state involved.

On past experience, it is likely that Mr Craxi's could be the determining voice, as it was when Iri's sale of its food subsidiary SME to Mr Carlo De Benedetti was blocked last year.

Rio Tinto to reopen its Spanish copper mine

BY TOM BURNS IN MADRID

RIO TINTO Minera, the partly British-owned mining company has bowed to pressure from the Socialist-controlled regional government of Andalucia and said it will re-start loss-making copper production in south-west Spain.

The decision, which at least momentarily ends a bitter dispute over the past two months in the Rio Tinto mining valley, is, however, linked to an explicit demand for RTM for public funds.

In a statement yesterday the company, which is 49 per cent owned by Rio Tinto Zinc (RTZ), warned: "If the hoped for assistance from the administration is not forthcoming, the (copper) operations will cause losses that will endanger the survival of the company."

In August the Junta de Andalucia, the regional government of southern Spain, blocked a move by RTM to suspend more than 1,300 employees, virtually its entire labour force, for 18 months. The company claimed that it stood to lose Pta 4bn ($30m) this year because of depressed world copper prices and because of the low grade of the mineral mined in the Rio Tinto complex.

The junta upheld a counter report drawn up by the Socialist trade union, Union General de Trabajadores (UGT), which accused RTM of bad management and alleged that copper production was being purposely run down in south-west Spain to benefit a seam in neighbouring Portugal where RTZ has invested strongly in a joint mining venture with the Portuguese Government.

A strike by RTM's copper miners meanwhile extended to the company's silver and gold operations in the Rio Tinto valley, which are currently profitable, and to RTM's smelter in the nearby port of Huelva, where half of the ore processed is imported from an RTZ mining complex in Papua New Guinea.

RTM said it had decided to reopen copper production "at the request of the Junta de Andalucia" and as "a gesture of good faith" in order to "create an adequate social climate" for a solution to the company's problems.

By putting the ball squarely in the junta's court, RTM has created a delicate problem for the regional government. Some 30,000 livelihoods depend on the Rio Tinto mining complex.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Dome wins waiver of payment on $125m of bonds

BY CLARE PEARSON

DOME PETROLEUM, the troubled Canadian energy company obtained approval at meetings in London yesterday, from holders of two of its outstanding dollar Eurobonds, worth US$125m, for a waiver of interest and principal payments until next July.

Dome, which is seeking a wide range of concessions from creditors to save it from liquidators, was unsuccessful, however, in obtaining approval from holders of a third, US$3.13m, bond yesterday. The meeting of these investors was adjourned until October 21. Today holders of Dome's two other dollar bonds will meet to vote on the waiver.

The group argued at yesterday's meeting that, since the fall in the oil price at the beginning of this year, its liquidity had been drained to the extent that it could no longer meet debt servicing obligations on much of its C$6bn (US$4.38bn) debt. It pointed out that the alternative to a waiver was court-ordered liquidation which could take up to 10 years and leave creditors with "virtually nothing."

Dome's decision to seek a waiver of both interest and principal repayments is believed to be the biggest such upset in the 20-year history of the Eurobond market. Yet the mood of yesterday's meetings in London was not acrimonious.

The meetings followed a presentation by Mr Howard Macdonald, Dome's chairman, in Zurich on Tuesday to holders of three Swiss franc bonds, worth SFr 300m, urging them to accept waiver provisions.

The Swiss franc securities' documentation, unlike that of the dollar bonds, does not provide for voting by a quorum of bondholders. The Swiss franc bondholders have until October 24 to submit ballots by mail and 70 per cent approval is required for accrued interest up until October 31 to be paid to them, as well as to the dollar bondholders.

In theory, the failure of any Swiss franc bondholder to approve the waiver constitutes an event of default, but holders of dollar bonds yesterday accepted a provision that they would not invoke "cross-defaulting" clauses along with their waiver of debt servicing obligations. If any individual Swiss franc bond holder chooses to sue Dome, however, the company would go into default.

The Swiss Bankers' Association will meet next week to consider whether to recommend the company's proposals to bond holders.

Yesterday Dome needed a quorum representing 50 per cent of the dollar value of each three bonds for the votes to be valid. Virtually unanimous votes in favour of the waiver were obtained from a quorum of holders of both its $75m issue of floating-rate notes due 1988 and $50m of floating-rate notes due 1989.

But holders of Dome's $3.13m 16¼ per cent fixed rate notes due 1989 failed to establish a quorum. When a meeting in respect of this bond is held again, attendance of only two bond holders will represent a valid quorum.

Today's meetings are of holders of $50m 10 per cent debentures due 1994 and $50m 13¼ per cent debentures due 1992. A quorum representing 25 per cent of the dollar value of the bonds will be required.

● Meanwhile Bayerische Landesbank, the German bank to which Dome Petroleum has a C$400,000 payment outstanding, which was due to have been paid on Tuesday, denied reports yesterday that it might call Dome in default on the sum this month.

Bayerische Landesbank emphasised that the payment did not constitute a loan, and said it did not consider it was necessary to grant Dome a waiver on it. It said that discussions with the company on repayment were continuing.

Merrill to sell mortgage business

By Anatole Kaletsky in New York

MERRILL LYNCH, the largest US brokerage company, is selling its $3.1bn residential mortgage servicing portfolio, in what appears to be a further step in a strategic retreat from Merrill's long cherished ambition of becoming a full-service "financial supermarket."

The financial supermarket concept, which Merrill helped to make fashionable from the late 1970s onwards, held that the future of the financial services industry would lie with conglomerates that would encompass brokerage, banking, real estate and insurance in a single package.

But the expected synergies and economies of scale proved disappointing, and Merrill announced earlier this week that it was putting its real estate brokerage businesses up for sale for $500m.

The mortgage business is a separate unit within Merrill Lynch Realty. Its role is to administer the servicing of residential mortgages, many of which are packaged into mortgage-backed securities and traded on the secondary mortgage market.

The sale of this business was not related to the proposed divestment of the realty operations, Merrill said.

But the deal involves a further loss of face since mortgage banking is even closer to Merrill's core financial activities than real estate broking. The mortgage servicing business will be bought for $52m by Glenfed Mortgage Corporation.

● CSX, the second-biggest US railroad group, suffered a setback in the third quarter, with net profits of $77m against $105m last time, or 50 cents a share against 69 cents.

At the nine-month stage, profits fell to $288m from $322m, equivalent to $0.87 a share against $2.14.

Michael Field and Andrew Gowers on an attempt to resolve the Souk al Manakh crisis

Charity begins at home for Kuwaiti debtors

THE CRASH of the Souk al Manakh, the unofficial Kuwait stock market, four years ago, left in its wake a morass of bad debt and a loss of confidence that have crippled an economy built up through the 1970s.

A solution now seems to be in sight for the first time since the crash in September 1982. Rules for settlement of bad debt have been decreed, and the Kuwait ruler, Sheikh Jaber al Ahmed al Sabah, is said to want to see the matter cleared up by the end of the year.

Hitherto, the Government had been unwilling to force through a comprehensive settlement that might lead to the bankruptcy of prominent Kuwaiti citizens. Meanwhile, the Souk al Manakh affair produced a national banking crisis and the whole episode has done greater economic damage to Kuwait than either the Iran/Iraq war or the drop in oil prices.

The solution being imposed involves massive use of public funds — an approach which would have run counter to the thinking of Kuwait's national assembly, dissolved last July, and of the austere Mr Abdul-Wahab Tammar, who resigned as governor of the central bank two weeks ago.

The Government has decreed an extremely charitable rescheduling operation. Defaulting borrowers have been divided into three categories, and the

Solution involves a massive use of public funds

banks have been told to reach settlements with them by the end of this year, as follows:—

● Those debtors with no cash flow and no assets are to sign 10-year promisory notes, bearing no interest. If during the 10 years, the lender bank can sequestrate assets abroad or if the debtor inherits money, the bank will be repaid all or part of its loan. If not the promissory note will be written off.

● Those who have no cash flow but some assets will sign a mortgage agreement for the assets and promisory notes for the balance as above. The bank can decide at which point it wishes to take possession of, or sell, the asset — though it is understood, that the Government has asked them not to make equity or property sales too soon, for fear of hindering the market's recovery.

● Those debtors who have some cash flow are to reschedule their debts over 15 years with a maximum interest rate of 7 per cent.

The losses that the banks will incur are being partially guaranteed by the Government. The banks are to make provisions against the promissory notes received, but if these wipe out more than their operating profits for 1986, and any hidden reserves, the Government will make up the difference.

In effect the state is guaranteeing the banks' capital and published reserves as well as depositor's money.

Some Kuwaitis are bitterly critical of the Government's move. Mr Jasiem Sadoun, general manager of Al-Shall Economic Consultants who has studied the Manakh collapse, says the rescue package amounts to "an encouragement to be dishonest."

It will certainly ease the pressure on the banks to recover bad debt. Since most of them have exhausted hidden reserves, they will be turning swiftly to the Government for support.

However, some analysts fear that the lax treatment meted

'Package amounts to an encouragement to be dishonest'

out to people who are technically bankrupt could lead to a sharp rise in the number of debtors declaring themselves insolvent, sometimes fraudulently.

Mr Sadoun reckons that bad debt could increase in the coming months from present estimates of $5bn to $9bn or more — in turn raising the amount of public funds to be spent on keeping the banks afloat. "Nobody has an interest in being solvent any more," he said.

There are also grave doubts as to whether the package will achieve the intended results within the appointed time scale

Even so, the current attempt at a solution is popular among most of the banking establishments and conforms to a guiding traditional principle of Kuwaiti society: that Kuwaitis should not be allowed to lose money.

The Government has repeatedly bailed out private investors in the past when businesses or markets have failed—notably in the smaller stock market recession of 1977.

Kuwaiti advocates of the measures justify them on the grounds that the crisis has traumatised and divided Kuwaiti society.

"This is a family affair," said Salah al Marzook, chairman of Kuwait International Investment Company, in which the Government holds 30 per cent "It is not a financial package but a political social package."

But even the staunchest defenders agree that this soft solution may not have a sufficiently sobering effect on Kuwaitis. If and when economic activity picks up it is accepted that there is nothing to prevent the same process of speculation and slump being repeated.

Battle for control of La Fondiaria

By John Wyles in Rome

MONTEDISON, the Italian chemicals group, and Mediobanca, the powerful merchant bank, were last night locked in a bitter battle for control of La Fondiaria, the Florence-based insurance company.

Mr Mario Schimberni, the Montedison chairman, cut short a tense meeting in Florence of the Fondiaria shareholders' syndicate by walking out after delivering an eight-page statement.

His departure signalled the dissolution of the syndicate and the start of a struggle with Mediobanca for control of any new body which may be formed. Mediobanca has the support of holders of 29 per cent of La Fondiaria's shares and of the company's management.

After the meeting, the Mediobanca group issued a statement saying that they would try to form a new control syndicate by the end of the year. In the meantime all had agreed neither to sell nor commit their shares elsewhere.

Yesterday's breach was precipitated by a request for the dissolution of the control syndicate by Mr Enrico Cuccia, the veteran Mediobanca director. He accused Mr Schimberni and Meta, the Montedison holding company, of breaching the syndicate's agreements by adding 12.4 per cent to Meta's 25 per cent holding in La Fondiaria in August.

In a new accusation, Mr Schimberni told yesterday's meeting that on August 8, the day Meta completed the purchase, Mediobanca representatives proposed creating a new control syndicate based exclusively on the Meta and Mediobanca holdings. Mr Schimberni said he refused in the interests of Meta and "of the minor shareholders in the Fondiaria syndicate."

At the end of his statement, Mr Schimberni told the other shareholders that Meta was ready to discuss forming another syndicate providing it was dedicated to the interests of the company, guaranteed management autonomy and represented a "harmonious plurality."

In the absence of such an agreement, Meta would firmly exercise its rights and responsibilities derived from its shareholding and "oppose without hesitation whichever group is serving narrow interests."

Sumitomo Bank absorbs troubled Heiwa Sogo

By Yoko Shibata in Tokyo

SUMITOMO Bank has become Japan's second largest commercial banking group in terms of its deposit base and branch network, following its formal absorption of the financially troubled Heiwa Sogo Bank on October 1. Sumitomo has also taken on Heiwa's 3,250 employees and its loan portfolio.

The now-defunct Heiwa Sogo had bad loans worth about Y170bn ($1.1bn), of which some Y70bn was classified by the Ministry of Finance inspectorate as uncollectable. Some Y100bn of the total portfolio is to be written off by agreement with Sumitomo. This sum will be met from Heiwa Sogo's remaining net worth of Y26bn, together with proceeds of Y70bn expected from property disposals and sales of securities.

Sumitomo Bank is expected to dispose of some 20 branches of Heiwa Sogo in the Tokyo metropolitan area which overlap with its own, and is likely to sell them to Daiwa Securities and to Meiko Securities, a company affiliated with Sumitomo itself.

Tight terms for $100m Philip Morris issue

BY ALEXANDER NICOLL

PHILIP MORRIS, a well-known name in the Eurobond market, made a $100m issue yesterday that seemed destined for the continental retail investors, especially in Switzerland, with whom it has been popular in the past.

The issue came on a quiet day which saw only small price movements in Eurodollars. The sector was still attempting to digest the small rush of bonds issued on Wednesday, among which the longer-dated continued to find little appetite among investors.

Although the New York markets have been more stable in recent days, investors are still extremely cautious.

Led by Union Bank of Switzerland (Securities), the Philip Morris issue had a five-year maturity and was priced at 100¼ with a coupon of 7¼ per cent. The terms gave a spread of 70 basis points over US Treasuries at launch, net of fees, viewed as tight, and the issue was trading at discounts wider than the total fees.

However, it was aimed at retail investors and was expected to be placed gradually with them.

TDK, the Japanese manufacturer of magnetic tapes, made a $150m venture into the bonds-with-equity warrants sector on a day which had seen a sharp fall in the Tokyo stock market. Its $150m issue, led by Nomura International, was the third to have the higher 3¾ per cent coupon which has been viewed as necessary because of the uncertain state of the Tokyo market.

Priced at par and with a five-year maturity, the issue was bid by the lead manager at discounts equal to the total fees.

IBJ International led a $50m specialty issue for Danish Oil and Natural Gas, which was pre-placed in Japan. The redemption amount of the bond, which is guaranteed by Denmark, will depend upon the yen/dollar exchange rate. If the dollar rises, so does the redemption amount. The five-year deal has a 9 per cent coupon and price of 101½.

Sterling Eurobonds fluctuated widely in line with gilt-edged prices as the pound languished against the D-Mark, and ended slightly lower on the day with wide discrepancies between prices reported.

In Switzerland, Banque Paribas (Suisse) became the first foreign house to lead an issue by a Japanese Government-guaranteed borrower. The deal was a SFr 200m 10-year private placement for Japan Highway Public Corporation, with a coupon of 4¼ per cent and price of par.

Another government-guaranteed borrower, Japan Finance Corporation for Municipal Enterprises, made a SFr 100m 12-year issue led by Union Bank of Switzerland, with a 4¼ per cent coupon and par pricing.

Heron International Finance, a Dutch subsidiary of the British-controlled company, made a SFr 150m issue led by Credit Suisse, with a 10-year maturity, 5¼ per cent coupon and price of par.

Credit Suisse also led a SFr 100m private placement for Autopistas Vasco-Aragonesa Concessionaria Espanola, a Spanish motorway concern, with a six-year maturity. 5 per cent coupon and par pricing.

Atsugi Nylon Industrial's SFr 110m issue was fixed as indicated with an above-normal 10.91 per cent conversion premium.

Swiss bond prices rose about a quarter point, with a major bank noted buying quite actively. In West Germany, Denmark's DM 1bn offering continued to be well received, with the five-year tranche particularly popular and quoted at a discount less than the selling concession.

D-Mark bond prices overall were little changed with continued uncertainly about interest rates. Terms of the new DM 4bn Federal bond were set with a 12-year maturity, 6 per cent coupon and issue price of 99¾ per cent.

There was some disappointment that the maturity was longer than expected, and initial trading was muted amid concerns that the amount of new D-Mark paper could weigh on prices.

FT INTERNATIONAL BOND SERVICE

Listed are the 200 latest international bonds for which there is an adequate secondary market.

Closing prices on October 2

US DOLLAR STRAIGHTS

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amoco Co. 9¾ 16	200	104¾	105¼	−0¼	+0¾	9.25
Atlan. Richfield 10¼ 00	250	106¼	106¾	+0¼	+0¾	9.30
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Auger.-Ex. OS Cr. 0.91 AS	200	55¼	55¾	0	−0¼	13.84
Boimer Ldbk. 12¾ 91 AS	30	97¾	98¼	0	0	13.34
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DEUTSCHE MARK STRAIGHTS

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC STRAIGHTS

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fanuc 3¼ 98	1/84	7852	220¾	220¾	−6¼	91.54
Fuji Heavy Industries 3.00	6/85	676	117¾	118¾	−4¼	−0.98
Fujitsu 3 99	5/84	1320	114¾	115¾	−5¾	11.70
Marui 3½ 99	7/84	1162	323½	325½	−13	−4.56
Minolta Camera 2¾ 94 DM	2/86	1185	†181½	183½	−6¼	63.79
Mitsubishi Bank 2⅞ 00	8/85	1768	148	149½	−5½	−1.87
Mitsubishi Elec. 2⅞ 00	3/85	422	†286	287	−19	−12.61
Mitsui Bank 2⅞ 01	4/86	101.9	122¾	124¾	−6¼	−90.24
Murata 3½ 00	7/84	2398	145¼	146¾	−9	17.42
Nippon Elec. 2⅞ 00	1/85	1295	274¾	276¾	−26¼	299.15
Nippon Oil Co. 3 00	5/85	923	207¼	209¼	+4¼	−3.17
OKI Elec. Ind. 3½ 99	10/84	885	129¾	131¼	−5¼	−5.48
Sanwa Bank 2⅞ 00	10/85	1486	143¾	144¾	−6¼	−1.07
Sekisui House 3 99	6/84	612	367	366½	−18¼	−4.49
Sumitomo Bank 2¾ 00	8/85	2142	164¾	168½	−12¼	6.08
Sumitomo Corpn. 2⅞ 99	5/84	593	264	265½	−16	3.15
Taiyo Yuden 3¼ 00	3/85	1878	*†137	139	0	−1.34
Toshiba Ceramics 3 00	4/85	1734	120½	122½	−3	4.56
Nippon Oil Co. 2¾ 92 SFr	3/84	1052	†123	125	−18½	−4.26
Nippon Shinpan 2 92 SFr	3/84	881	*†173	174	0	12.51
Asics 5 92 DM	10/83	528	110¾	111¼	−2¼	5.72

* No information available—previous day's price.

† Only one market maker supplied a price.

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK COMPANY NEWS

Mitchell Cotts profits dive after South African losses

BY TERRY POVEY

Mitchell Cotts, the engineering, speciality chemicals, freight forwarding and trading group, yesterday surprised most in the City by reporting a collapse in pretax profits from a restated £10.9m to £39,000 for the year to June 30.

As the board is not recommending any payment of a final dividend, the total for the year remains the 1.5p paid at the interim stage which compares with 4.25p paid in 1984-85.

Mr John Storar, chairman, said that a £4.3m turnaround to a £2m loss in South Africa, a £4.2m exceptional contracting loss, a £1.9m adverse currency movement and East African tea profits down £1m on last year were the main reasons for the sharp profits drop.

As a result of currency movements, write-offs and disposals the group's net asset value per share is around 47p compared with almost 69p as of June 1985. The ratio of debt to shareholders' funds has risen to 107 per cent according to Mr Tony Alcock, the new finance director appointed in April.

For the year to June, Mitchell Cotts has posted turnover of £337m (£367m) and an operating profit of £9m (£17.4m). The miniscule pretax outturn was struck after interest paid of £4.75m (£5.32m) and an exceptional loss of £4.2m (loss of £1.17m).

The pre-tax profit figure for 1984-85 has been restated to include the exceptional item—previously the accounts showed a profit for the year of £12.07m but carried a qualification from auditors Price Waterhouse concerning the £1.17m.

Taxes paid in 1985-86 were £1.16m which included a £750,000 net credit from the UK) and minority interests took £278,000 (£327,000). Losses before extraordinary items amounted to £1.4m (a profit of £6.5m). In the extraordinary account net losses on disposals were £1.18m (a gain of £1.8m) and reorganisation costs totalled £6.67m (£3.48m).

Over the last year the group's senior management has changed. Following the death of Mr Philip Dunkley—for several years chairman and chief executive—in September 1985, Mr Storar was appointed chairman and the chief executive's role was carried out by a committee of three.

Then Mr Roderick Paul, formerly head of the group's South African operations, was appointed chief executive.

In order to reduce debts and cut costs, Mitchell Cotts is selling its long lease City headquarters and moving with only half the staff to new premises in Guildford. It has closed Key Resource International, Alldays Peacock and various contracting project activities in Australia and South Africa. Yesterday the company announced that it had sold Mitchell Cotts Motor Vehicles, its Mercedes-Benz car and truck agency in the Birmingham and Coventry areas, to Inchcape for a total of £2.5m.

On the news of the profits collapse, Mitchell Cotts' shares fell 3p to 50p.

● comment

Yesterday Mitchell Cotts learned that there are times when it pays not to depend entirely on even the most exalted of stockbrokers. From the hoi polloi the market at least gets a clear warning of dicey weather ahead. The figures themselves were a financial as well as a public relations disaster. If the one-third fall in net assets is alarming enough, the quality and saleability of some of what remains is also worrying. The problems that are now being tackled have been building up for quite a long time and the new management team clearly has its work cut out. Looking to the future it is hard to be enthusiastic over the UK engineering businesses, especially the civil side, speciality chemicals could suffer some margin paring, whereas the transportation operations should grow modestly. Outside of the UK, earnings quality is poor and the endless rounds of negotiations with sovereign states over dividend remittances surely a poor use of management time. Inevitably this will be cast as a year of recovery and £7m pre-tax, exceptionals aside, should be possible. The shares fell 3½p to 49½p on the figures and there is no reason for any uplift in sight.

GKN sells Steelstock offshoot for £50m

By Nick Garnett

Guest, Keen & Nettlefolds looks to have sold, at last its steel stockholding business, the largest in the UK following an agreement with C. Walker and Sons which is purchasing the operation for about £50m.

C. Walker, the steel stockholding operations of which are only slightly smaller in sales volume, said yesterday that the purchase would allow it to expand its product range, processing capability and geographical coverage.

The deal is still the subject both of approval by the EEC, and the non-referral by the Office of Fair Trading to the Monopolies and Mergers Commission. GKN said it expected that approval would be obtained in December.

The sale of GKN Steelstock will mark the divesting of GKN's last wholly-owned direct steel operation. The group, which draws half of its turnover from vehicle components still has half shares in some of the businesses arising from the Phoenix steel merger programme.

Steelstock, which trades largely in the UK, had sales of £197m last year, contributed £7.7m to group profits and had between 12 and 14 per cent of the domestic market.

It was the subject of an offer earlier this year from a group of US investors but that collapsed with GKN saying it was happy to keep the business.

It said yesterday that the proceeds from the sale would go towards reducing group borrowing, which stood at £295m at the end of last year.

In the first six months of this year Steelstock's sales amounted to £99m but profits before tax and interest were down to £2.3m. That reflected the tight margins and difficult trading conditions steel stockholders have been operating under in the UK this year and which have been accompanied by some pessimistic forecasts from the National Association of Steel Stockholders.

C. Walker, based in Blackburn, showed an interest in Steelstock immediately after the proposed purchase by the Americans foundered. It had a turnover last year of £199m, though £28m of this derived from non stockholding activities.

Joan Gray examines Redland's moves into the US aggregates market

Laying foundations for growth

Redland, one of the largest construction materials producers in the UK, has just completed a hat-trick of major acquistions—buying into the aggregates business in the US—which will change the shape of the group and reduce its dependence on a static home market.

The company's third, and largest, buy was announced on Wednesday, with the purchase of the Maryland-based quarrying company Genstar Stone from its Canadian owners Imasco for £220m ($317.5m).

Less than a week ago, Redland announced that it was buying the Colorado-based aggregates company MPM for £24m ($35m) as part of a deal to form a joint venture, Western Mobile, with Koppers the US construction materials business.

That followed an earlier purchase of 80 per cent of a Texas quarrying company, now known as Redland Worth for $72m in 1983.

As a result, Mr Robert Napier, Redland's financial director, estimates that 30 per cent of its operating profits will come from the US next year compared to 40 per cent from the UK. By comparison, this year—1985/86—49 per cent came from the UK and only 16 per cent from the US in 1982/83 the profit from the US was nil and from the UK 58 per cent.

"We identified the US as the place to move into because it's a prosperous country with incomes per head way above the UK or anywhere else and which can afford to spend much more on infrastructure, particularly roads, than poorer countries," said Mr Napier.

"There is also a much higher poulation growth rate than in the UK or Europe," he added. "Maryland, where we've just bought Genstar Stone, has a population growth rate of 5 per cent, for example."

A third factor is the population movement which requires extra spending on infrastructure. Colorado is a focus for

REDLAND'S CHANGING GEOGRAPHICAL SPREAD

	1982/3	83/4	84/5	85/6	86/7 (forecast)
Operating Profits	£72.2m	£100.6m	£118.7m	£124.7m	n/a
	%	%	%	%	%
UK	58	50	43	49	40
North America	Nil	10	11	16	30
Cont. Europe	28	28	31	25	25
Other	14	12	15	10	5
Assets Employed	£419m	£438m	£504m	£554m	n/a
	%	%	%	%	%
UK	38	38	35	36	30
North America	27	25	27	25	40 plus
Cont. Europe	26	27	29	31	20
Other	9	10	9	8	less than 10

Sir Colin Corness, chairman of Redland

expansion as part of the sunbelt phenomenon, the rise of new industries in the west rather than in the older industrial areas of the north and east. The Washington-Baltimore area, which Genstar serves, is the rapidly expanding region round the capital, growing in much the same explosive way as the south-eastern region of the UK round London.

Three statistics illustrate why Redland has chosen Genstar, which has an estimated 50 per cent of the aggregates reserves in its home state, and Western-Mobile, with an estimated 25 per cent of reserves with planning permission and 40 per cent of the market in the high-growth area round Denver.

The main market for aggregates in the US is in road construction. Spending on roads in Maryland is running at $500m a year and has recently been increased by 6 per cent to $3.9bn in the period to 1991.

More than $500m was spent on roads in Colorado in 1985, and the amount is due to increase "substantially this year with the imposition of a new gasoline tax to contribute extra revenue to the road budget," said Mr Napier.

By comparison, total spending on roads in Britain in 1985-86 is set to reach £3bn.

"And we don't see any growth in the UK market, either," said Mr Napier.

Profits from the Texas quarries Redland purchased as its first move into the US have risen from $6m a year in 1983 to "more than triple that in the current year," he added. This has left him with the confidence to say: "We know how to spot a good aggregates investment in the US."

Since sand, stone and gravel are bulky commodities which are expensive to transport, proximity to a buoyant market is one way to pick a winner, he said;

Genstar gives Redland nine aggregates production sites with total estimated reserves of more than 1.5bn tons, enough for more than 40 years' production, and believed to account for half the total aggregates reserves in Maryland with extraction consent.

Western Mobile gives Redland a new subsidiary with three stone quarries and 19 sand and gravel pits, with combined aggregate reserves of 200m tons.

Mr Napier is particularly pleased about the Colorado reserves. "There is a lot of stone in Colorado because of the Rocky Mountains, but since this is a national park and leisure area there are very tight restrictions on operating quarries so you are in a very strong position if you already have them."

With its latest acquisitions, Redland's moves in the US are complete, for this year at least.

"We want to digest what we have done for the moment," he said.

Redland's US acquisitions have been broadly welcomed by the City. Mr Khalid Nazir, analyst with Wood Mackenzie, estimated that Western Mobile and Genstar would help operating profit rise from £124.7m this year to £148m in 1986-87 and £180m in 1987-88, and earnings per share rise to 35.4p in 1986-87 from 31.8p in 1985-86.

"The acquisitions haven't been cheap, but we think they're a good deal," he said.

Abaco buying Lloyd's broker

BY CHARLES BATCHELOR

Abaco Investments, the acquisitive financial services group, is to pay up to £8.1m for Burgoyne Alfard, a Lloyd's insurance broker specialising in householders' buildings and contents insurance.

This is Abaco's fifth acquisition in 1986 and comes three months after it acquired Messenger May Baverstock, a chartered surveyor and estate agent, in a £5.3m deal.

Burgoyne made a pre-tax profit of £504,000 on turnover of £2.8m in the year ended March 1986 compared with a profit of £291,000 on turnover of £2m the year before.

Abco will pay £8.1m for the business if Burgoyne's profits reach £1.15m in the current year, but Abaco expects profits to be nearer £850,000, in which case it would pay £7.65m, equivalent to a price/earnings ratio of 13.9.

Mr Peter Goldie, Abaco's chief executive, said: "We looked at dozens of insurance brokers but most of them carry out commercial business. We wanted a specialist in the private customer market so it would fit in with our mortgage and estate agency business."

Formally Abaco will acquire a company called Riverhaven, of which Burgoyne is the main operating subsidiary.

Burgoyne has 190 staff based mainly in Horsham, Sussex. It has placed 400,000 household insurance policies, many on behalf of about 2,000 small High Street brokers which are not members of Lloyd's and 100 building societies it represents.

Abaco has acquired a clutch of professional partnerships over the past three years and now provides personal financial services in the fields of mortgage consultancy, estate agency and pension planning.

Abaco will pay an initial £5.15m, comprising £2.74m cash and £2.41m in the form of 3.68m shares. It may also make a deferred payment of up to £2.95m—comprising £1.77m cash and £1.18m in shares — if Burgoyne's profits reach £1.15m.

McCorquodale tries to quell anxieties

BY DAVID GOODHART

MR JOHN WOOD, chairman of McCorquodale, yesterday attempted to quell anxieties that the company was preparing to subsidise an agreed bid for it from Extel in the manner of the Guinness bid for Distillers.

In response to a letter from Mr Clive Chalk of Samuel Montagu, merchant bank advisers to Morton Opax, Mr Wood wrote: "As and when my board makes a decision we will of course make an announcement. In the meantime you should be assured that the board is of course fully aware of its obligations."

Following rejection of Norton Opax's £145m final offer, McCorquodale announced it was in talks with another company about an agreed deal. It is widely believed that the company is Extel which has recently engaged the services of a new merchant bank instead of its usual bank Kleinwort Benson.

As Kleinwort Benson is currently acting for McCorquodale—and would not therefore be able to also represent xtel—such a switch fuels the suspicion that an Extel-McCorquodale deal is imminent.

Mr Chalk of Samuel Montagu stressed last night that he had no evidence to support the belief that McCorquodale had agree dto pay Extel's bid costs—as Distillers had agreed to pay Guinness's to escape from Argyll. (Coincidentally Samuel Montagu was acting for Argyll and Kleinwort for Distillers).

However, the Montagu letter to McCorquodale said that any payment of bid costs would be in breach of the Companies Act and asked for assurance that it would not happen. The letter also said that if this assurance was not given legal action would be contemplated.

Receivership talks at Blacks

The board of Blacks Leisure spent most of yesterday discussing whether the company would have to be placed in receivership following the withdrawal of the agreed Sears bid.

The Blacks board had warned that if Sears was frightened off by the refusal of a large minority of Blacks shareholders to accept the £3.3m offer, receivership would be the most likely option.

Following Sears decision on Wednesday to drop the bid after receiving only 54 per cent acceptances, the company said yesterday that it might be interested in buying Blacks from the receiver.

Mr Howard Perlin, an executive director of Sears said: "If Blacks went into receivership we would certainly look at the situation."

KUWAIT INVESTMENT Office said yesterday that it had increased its stake in TI by just under 2 per cent. At the end of August it acquired a 14.6 per cent stake from Evered Holdings. It has now announced a "vested interest" in a further 1m shares taking its holding to 16.26 per cent.

Gilbert House receives fresh approach

A SECOND potential bidder has emerged for Gilbert House Investments, the property investment and development group which was brought to the USM in June 1983.

Yesterday's announcement of a possible alternative offer came nearly two months after Letts Green Estate, a company owned by the family interests of Mr Turrloo Parrett, the Gilbert House chairman, said it planned to made a bid.

Any bid would be for the outstanding 19.68 per cent of Gilbert House. The bulk of the shares are held by Letts Green, the Parrett family and another director.

Letts Green has offered 15p cash for each Gilbert ordinary share to value the company at £4.32m. There is a loan note alternative.

Gilbert House said yesterday that Letts Green and other major shareholders had received an approach and it advised shareholders to take no action at present.

Gilbert House's shares were unchanged at 17p yesterday.

US approval for Lloyds

THE US Federal Reserve has approved Lloyds Bank's application to buy up to 30 per cent of Standard Chartered, the London-based international banking group which rebuffed an unwelcome takeover bid from Lloyds Bank earlier this year.

Lloyds Bank had initially submitted an application to buy 100 per cent of Standard Chartered but late resubmitted its application for a stake of up to 30 per cent.

Bennett & Fountain

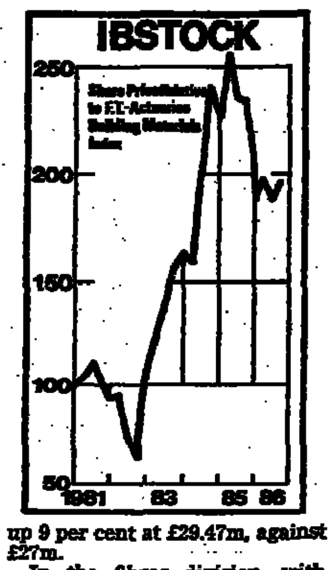
Bennett & Fountain, the electrical appliance group, is acquiring Moss Electrical, a wholesaler, and Godwin, a retailer, for £3.68m and £530,000 respectively, both amounts to be satisfied in shares and not in cash as stated in yesterday's report.

UK COMPANY NEWS

Ibstock up 35% after substantial US recovery

BOOSTED BY a substantial recovery in the US, Ibstock Johnsen, brick manufacturer, lifted pre-tax profits by 35 per cent from £4.83m to £6.52m for the first half of 1986. Turnover was marginally higher at £58.26m, against £57.3m.

Earnings per 25p share rose 35 per cent to 7.54p (5.57p) and as forecast in June at the time of the £22m rights issue, the interim dividend is stepped up to 1.7p (1.5p) net on the increased capital. Last year's total payment was 4.8p on £11.36m profits.



Commenting on the result, Mr Paul Hyde-Thomson, the chairman, said the most significant feature was the continuing substantial progress by Glen-Gery, the US brick subsidiary. Turnover in dollars rose by 17 per cent and the previous year's loss of £464,000 was turned into a profit of $2.2m. In sterling terms, US profits were £1.49m (£387,000 loss), on £28.78m (£30.3m) turnover.

In the UK profits improved to £6.64m (£6.48m) with turnover up 9 per cent at £29.47m, against £27m.

In the fibres division, with world pulp prices rising faster and earlier than expected, first-half profits of £534,000 were well ahead of budget and showed a significant improvement on last year's second half figure of £152,000. In the first half of 1985, fibres contributed £673,000.

On prospects, Mr Hyde-Thomson said that trading conditions remained strong in the US and were slowly strengthening in the UK. The group was confident of continuing satisfactory progress.

In February, Glen-Gery paid £3.6m for the assets of Hanley Brick, a maker of specialist clay facing products sited near Pittsburgh. The chairman said this purchase had integrated well with Glen-Gery and was producing profits in line with expectations.

The successful rights issue had strengthened the balance sheet and year end gearing was expected to be significantly lower.

First-half interest charges were £2.15m (£1.93m). Tax took £1.82m (£1.45m) leaving a net surplus of £4.69m, against £3.38m.

See Lex

Cluff losses rise but gold find revealed

The fall in oil prices sliced £320,000 off Cluff Oil Holdings' turnover in the first six months of 1986 and sent the company's losses up for the period by £215,000 to £347,000 at the pre-tax level.

The directors said, however, that with the company's strong balance sheet, cash reserves and increasing income from gold production they faced the future with confidence.

They also revealed that the company had made another gold find in Zimbabwe. Drilling of the new Rebecca prospect at Bindura, 65 km north-east of Harare, during the half year had outlined an open-pit gold prospect containing over 1.5m tonnes of ore grading 3.9g gold per tonne.

Cluff was confident that further work would increase the size of the find which had given assay results ranging up to 4.25g per tonne over a width of 32.7m metres.

It thought it possible that Rebecca could be brought to production in about 12 months' time.

MAI purchase

MAI, the financial services and advertising group has increased its stake in London & Continental Advertising from 6.63 to 14.87 per cent over the past week.

L&C last month announced a £1.36m pre-tax loss in the first half of 1986 compared with a £1.41m profit previously. L&C's shares closed 8p higher at 103p yesterday.

Ryman releases terms of its USM offer for sale

BY RICHARD TOMKINS

Ryman, the office equipment and stationery retailer being floated on the unlisted securities market, yesterday set the terms for its offer for sale by tender.

Some 3.73m shares, representing just under 40 per cent of the enlarged equity, are being offered at a minimum tender price of 105p. At that price, the company is valued at £9.9m.

The full prospectus does not have to be published in newspapers because Ryman is not seeking a full listing. Instead, copies are being distributed through the company's 53 shops in London and the south of England and through L. Messel, the stockbroker sponsoring the flotation.

Ryman was originally a family stationery business but in 1968 it was merged with the Habitat chain and became known as Ryman-Conran.

It later passed to the Burton group before being bought out in 1981 by Mrs Jennifer d'Abo, its present chairman, with the backing of five institutional investors.

After five years of substantial reationalisation, pre-tax losses which rose as high as £1.5m in 1983 turned into pre-tax profits of £554,000 in the year to last May

There is no profits forecast in the prospectus, so on an historic basis the price/earnings ratio comes out at 15.2 after a zero tax charge and 23.4 per cent after a notional 35 per cent.

Of the shares being sold, some 2.33m will come from existing shareholders — Mrs d'Abo is selling 400,000 — and the remaining 1.4m are new shares issued by Ryman.

The company will use the net proceeds of at least £1.13m to finance its shop opening programme

Application lists open on October 10 and dealings are expected to begin a week later.

● comment

The tender offer route brought the odd raised eyebrow yesterday: if Ryman is so unique that it is impossible to price, it is a wonder how all the other unique store chains managed. More likely is a desire on the company's part to let the market give it a rating on a par with Body Shop's if the inclination takes it. It probably won't —Ryman's consumer profile is not quite high enough—but the smart and successful retailing concept and vast potential for growth suggest that there is room for a lively auction above the tender price. On, say, £800,000 for the current year and a tax charge of 15 per cent, about 120p would produce a p/e multiple in line with the sector average, and yesterday's reception for Miller and Santhouse — another unique debutant—suggests that would still leave room for a decent aftermarket.

BROWN AND JACKSON is inviting holders of the 2.25m 10¾ per cent preference shares to convert into ordinary given that no dividends (cumulative) have been paid since the second half of 1982, and that current profits on existing operations are insufficient to pay the arrears (over £700,000) rapidly. Full details will accompany the interim report. Meanwhile, in six months ended June 30 1986 turnover fell from £38.4m to £9.36m as commodity trading subsidiary conducted much reduced level of business. Profit came to £177,000 (£264,000 before extraordinary profit £48,000).

HTV profits hit by losses at Dataday

HTV, the independent television contractor for Wales and the West of England, yesterday revealed an unexpected £1.58m operating loss and £4.2m of extraordinary provisions at Dataday, its diary publishing subsidiary, which held back the group's 1985-86 pre-tax profits to £9m, up from £8.47m the year before.

The company was not able yesterday to explain the nature of the problems, which it said had come to light during an audit last month.

Auditors Deloitte Haskins and Sells are now investigating the causes of the loss. Mr Timothy Knowles, HTV's managing director, said the company was keeping open all its options towards Dataday — which was still a going concern — until it saw Deloitte's report.

HTV bought Dataday, Britain's third largest diary publisher, in 1977 for £1.8m in an attempt to diversify out of television, with its restricted opportunities for growth. But the Wimbledon-based company has never performed well.

HTV said there remained uncertainties about Dataday's reported results for the half-year to January 31, 1986, but provisions had been made against its operating losses to the end of the year. The extraordinary item was a "prudent" provision for the estimated diminution in the value of assets in Dataday and other related commitments. It was not yet possible to say if they were "adequate or excessive." The company was taking "positive steps" to prevent further losses.

A breakdown of HTV's operating profits in the year to July 31 shows television producing £9.7m (£7.56m), after an Exchequer levy of £1.2m (£612,000). Its fine art subsidiary produced £527,000 (£871,000), Dataday a loss of £1.58m (£35,000 profit) and property £173,000 (£243,000). Turnover was £114m (£101m) and tax absorbed £4.1m (£3.8m).

Earnings per share are 23.57p (22.57p) and the final dividend is 5.7p (5.2p) making 8.5p for the year (7.7p).

● comment

The discovery only now of Dataday's difficulties must raise questions about HTV's management controls, given that the diary company's main trading period is before Christmas. There is also a moral — TV companies diversify at their peril out of the core business they understand. HTV's television operations have performed well in recent years, thanks in no small measure to a string of export successes such as Robin Hood, and these figures continue that trend, helped along by a surprisingly low exchequer levy. But the imposition of a 22.5 per cent levy on exports last April will make it more difficult to compete profitably in the US market, while HTV's share of the advertising cake has dropped slightly to 6.5 per cent (and could fall further) as more revenue goes to the affluent south-east. Yet the market is still basically buoyant and, on the assumption that there are no more diary horrors to come, the group could make profits of £10m-£11m this year, putting the shares on a prospective p/e of six to seven at last night's closing share price of 220p, down 8p. That makes HTV among the cheaper stocks in a cheap sector, but the Dataday uncertainties mean some of its rivals present more attractive buying opportunities.

Rationalisation benefits boost Kalon to £1.5m

IN SPITE of difficult trading conditions, which led to a £1m reduction in sales, the Kalon Group of paint and chemical manufacturers has pushed up its first-half 1986 profit from an adjusted £867,000 to £1.54m.

And with the rationalisation programme complete and sales showing a significant improvement since June, all companies within the group were operating profitably, said Mr Leslie Silver, chairman.

He anticipated that the improving trend would continue and be reflected in the results for the full year. For 1985 the group reported a profit of £2.79m.

The group was formed in June 1985 by reversing itself into the quoted and troubled Leyland Paint and Wallpaper. The sharp increase in the half-way profit reflected the benefits of the cost savings arising from the rationalisation programme which had been carried out since the merger.

In drawing up the final accounts for 1985 the directors have increased the Leyland first-half loss by a further £372,000 from the £1.24m group profit published.

After tax £540,000 (£303,000) the net profit came through at £1m (£564,000) and produced earnings of 0.86p (0.48p) per share. There is an interim dividend of 0.46p.

This time there were extraordinary charges of £502,000. These comprised redundancy, rationalisation costs, including plant and machinery write-offs £639,000, and unused property costs £133,000, less tax £270,000.

Marlborough Tech.

Marlborough Technical Management's offer for sale received 2,610 applications for a total of 21.07m shares (3.3 times the number offered).

Preferential applications were received from 88 members of management and staff (including a non-executive director) in respect of 84,700 shares. These applications have been accepted in full.

The remaining shares have been allocated on the following basis: applicants for 400 to 500 shares will receive 500; 2,000 to applicants for 600 to 1,500 shares will receive 500; 2,000 to 10,000 shares—30 per cent of those applied for; 15,000 shares and over—28 per cent of those applied for.

DIVIDENDS ANNOUNCED

Bellway	4.5	Jan 16	4	7.5	7
Ealing Electro ......int	0.7‡	Nov 20	—	—	1.5
Empire Stores ......int	1.5	Nov 14	0.5	—	3.75
Erith ......int	1.3	Dec 1	1.1	—	3.3
Etam ......int	1.3	Jan 5	1.15	—	4.25
Galliford	3.8	—	3.4	4.8	4.4
S. R. Gent	nil	—	1	0.5	2
HTV Group	5.7	—	5.2	8.5	7.7
Ibstock Johnsen ...int	1.7†	Dec 2	1.5	—	4.8
Kalon Group ......int	0.46	Nov 21	—	—	0.8
Kleinwort Gilt 2nd int	30.88¶	Nov 30	31.55	—	124.5
Lilleshall ......int	0.75	Dec 3	0.75	—	2.25
Albert Martin ......int	1.3†	Jan 2	1.2	—	3.6
Merchants Warehousing	0.9‖	—	0.9	1.8	1.8
Mitchell Cotts	nil	—	2.75	1.5	4.25
Murray Electronics	0.2	—	0.1	0.2	0.1
NMW ......int	2.5	—	2.5	—	6
H. Young	2.4†	Nov 12	2.1	3.6	3.15**

Dividends shown in pence per share net except where otherwise stated. * Equivalent after allowing for scrip issue. † On capital increased by rights and/or acquisition issues. ‡ USM stock. § Unquoted stock. ¶ Makes 63.08p (62.94p) gross to date. ‖ Irish currency. ** For 14 months.

UK COMPANY NEWS

SR Gent blames weather for fall into £1.2m loss

AS EXPECTED the deterioration in the results of S. R. Gent, Barnsley-based clothing manufacturer, continued in the second half with a fall into losses for the year to the end of June 1986 of £1.24m, against profits last time of £1.03m. There were interim profits of £22,000, against £901,000.

The final payment has been passed, leaving the total for the year at 0.5p (2p).

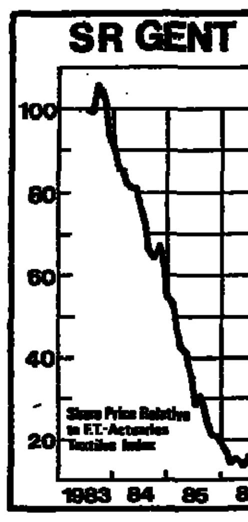
The weather was blamed as the major cause of the loss. Directors said that a lack of seasonal weather for the second successive half year affected sales more than expected.

That resulted in heavy write-downs, mainly in dresses, totalling £1.7m, which was taken as an exceptional item.

Turnover improved slightly by £1m to £83.83m and operating profits were little changed at £1.94m, against £1.9m. However the exceptional item combined with higher net interest charges of £1.77m (£1.31m) and lower share of related companies at £288,000 (£432,000) pushed the company into loss.

Directors added that profitability on other products could not contribute to affect the final results.

The tax charge was £148,000 (£427,000) and there was an



extraordinary charge of £258,000 (£263,000) relating to a fall in the value of land and buildings of the South African related company.

Stated losses per 10p share were 3.9p (earnings 1.7p) net basis, or 3.8 (earnings 2.3p) nil distribution basis.

Throughout the rest of its operations Australia and Sublime Lighting incurred losses but Canada achieved an operational profit. South Africa traded profitably.

Directors said that the development of new customers, had been rationalised to concentrate on a manageable number of high quality volume accounts. The garment product mix had been substantially transformed and a wide range of co-ordinated household goods was to be introduced to complement the existing lighting and towels, they added.

● comment

Marks & Spencer supplier S. R. Gent has not had the best of luck with second-guessing the fashion trends its customer is serving. As dresses are a dull feature at M & S so the clothing company has switched to casual and sportswear, leaving behind it an expensive £1.8m heap of unworn but exceptional frocks. But now that M & S has a new head of dresses this could all change and Gent could find itself wrongfooted. And while the company's avid search for more profitable areas is understandable any temptation for it to enter the well populated household fabrics' marketplace had better be tempered with some in-depth market research first. For this year some £1¼m is in prospect which has the shares at 52p on a prospective p/e of 17—which seems far too fancy for a company that has passed its final dividend and whose feel for the market is very much under question.

Empire Stores advances to £2.5m

THE IMPROVING trend at Empire Stores (Bradford) continued in the six months ended August 9 1986, with profit before tax advancing from £1.1m to £2.53m. The City was looking for around the £2m mark.

Mr John Gratwick, chairman expressed confidence that the full year would show another useful increase in profits. At the interim stage shareholders are getting an advance from 0.5p to 1.5p net in their dividend.

Turnover of the group, which is engaged in mail order activities, rose by £9.4m to £85.92m and the operating profit more than doubled to £2.92m (£1.42m).

Mr Gratwick said the first specialist catalogue of children's and maternity clothing was launched in the spring and exceeded sales targets; the second edition was currently being issued with a much larger circulation.

He said the second half of the year had started quite well,

After tax £962,000 (£365,000) the net profits for the period came to £1.57m (£718,000) for earnings of 4.19p (1.92p) per share. For the year ended January 25 1986 the net profit was £4m and total dividend 3.75p.

● comment

Empire Stores may have been the last of the mail order companies to enter into the current more bouyant phase, probably a lot to do with its Yorkshire base, but this trend now seems to be firmly established. The specialised catalogues are carving out useful niche markets and the number of agents is rising more rapidly than customers. In the past industry analysts have carped at Empire's apparently high staff levels, comparing them unfavourably with those of Grattan. While the Bradford company's staff numbers are falling, down by 100 to around 2,800 by August, many of Empire's workforce are employed in the direct delivery service that is run in-house and for which Grattan has no equivalent. For the year, Empire should make £8.25m which has the shares at 190p, trading comfortably, the occasional bouts of takeover speculation appear to lack substance, on a prospective multiple of 13.

South helps Bellway rise 43%

BOOSTED by its activities in the south of England Bellway, Newcastle upon Tyne-based housebuilder, saw pre-tax profits improve by 43 per cent in the year to the end of July 1986. And to finance expansion in the south it is raising £7.54m net by a rights issue.

Turnover rose by £13.13m to a record £65.88m and pre-tax profits were also a record at £4.66m, against £3.26m. Earnings per share came out at 18.8p (11p) and the directors are proposing to raise the final payment to 4.5p, from 4p, to give a total for the year of 7.5p (7p).

The directors said that excellent results were achieved by the southern housebuilding companies, which accounted for a third of group turnover. The companies specialise in quality homes at the lower end of the market where, directors said, there was consistent demand and they were confident that it would be possible to increase the companies' market share.

Terms of the rights issue are one ordinary for every three at 137p per share with 5.76 new shares being issued. The issue has been underwritten by James Capel and Co, who are joint brokers with Wise Speke & Co.

Bellway (North East) had another satisfactory year although conditions were difficult in the north west and Scotland.

Of the present year directors said that sales were higher than in the previous year with the southern companies, the north London operation in particular continuing to per form well. With better trading expected in Scotland and the results of actions taken in the north west bearing fruit they were looking for another satisfactory year.

The pre-tax figure was struck after interest charges of £1.99m (£1.5m) and included profit on sale of investment property of £169,000 (£373,000), rental income of £95,000 (£188,000) and £4,000 (nil) from the ship repair and port activities of related company. Bellway acquired a 50 per cent interest in Falmouth Shiprepair Group in March last year.

The tax charge was £1.41m (£1.35m) and last time there was an extraordinary debit of £340,000. With dividends absorbing £1.3m (£1.21m), the retained profit came out at £1.95m against £357,000 last time.

The shares fell 4p yesterday to close at 182p.

NMW nears £1m and denies reports of Big Bang problems

BY RICHARD TOMKINS

NMW Computers, the City computing bureau which provides settlement services to stockbrokers, yesterday reported an increase in pre-tax profits from £708,000 to £989,000 for the half-year to June and denied reports that it had run into difficulties in preparing for Big Bang.

The company's shares slumped 50p to 230p last Friday on fears that its new settlement systems would not be functioning properly by October 27, but they have since made a partial recovery. Yesterday they closed 5p lower at 285p.

Mr Nigel Bannister, managing director, said the bureau service to stockbrokers had a busy first half amid high levels of stock market activity, and seven new users, including two Japanese firms, had been signed up.

During this period NMW had had difficulties in maintaining a satisfactory level of service because its old ICL mainframe computers became unreliable. It had therefore installed two new ICL 3980 machines which came into operation on August 18.

Mr Bannister accepted that there had been teething troubles with the new computers but insisted that they were no more than could be expected with any such system.

Customer complaints had been aggravated by the poor level of service provided earlier in the year and by nervousness over Big Bang.

"If the problems had been seen in isolation, no one would have been shouting about them," Mr Bannister said. "These problems are decreasing by the week and we are confident that we will not be causing any difficulties in the new market."

Group turnover more than doubled from £3.17m to £6.8m, but the increase included low-margin hardware sales associated with the installation of turnkey systems by Timon, the software subsidiary. The recruitment of additional systems development staff also added to overheads.

The tax charge fell from 42 per cent to 35 per cent, earnings rose from 7.2p to 9.9p, and the interim dividend is being held at 2.5p on the enlarged capital.

Mr Bannister said NMW had spent the last two years investing heavily in making sure that it had the capacity to cope with increased trading volumes after Big Bang, and it expected to reap the rewards in coming years.

Reckitt £21m US acquisition

BY LISA WOOD

Reckitt & Colman, the household products and foods group, is to pay $30m (£21m) for Gold Seal, a privately-owned US manufacturer of laundry aids and bath additives, including Mr Bubble, a children's bubble bath.

Reckitt said the acquisition was a further planned step in its strategic objective of increasing its presence in the US. In August, Reckitt paid $120m in cash and took over $20m in debt in acquiring Durkee Famous Foods from Hanson, the UK conglomerate. Durkee, said Reckitt fitted neatly into its R.T. French business, which is a US speciality food company.

Gold Seal which made a pre-tax profit of $1.9m last year on sales of $36m, makes a similar fit with Reckitt's Airwick business in the US. Reckitt said it would provide "immediate and material synergy benefits in manufacturing, selling and distribution."

"The products," said Reckitt "which are in the fields in which Reckitt & Colman has proven experience, increase the profit-generating base and improve the brand franchises and development potential of the group's US household interests."

The Airwick Group, with substantial sales of its range of air freshners and cleaners in the US, was acquired by Reckitt in 1984 from Ciba-Geigy, the Swiss chemicals and pharmaceuticals group. The acquisition assisted Reckitt in reporting healthy profit increases in North America, Europe and the UK in the first half of this year with group pre-tax profits increasing by 15 per cent from £57.73m to £66.53m.

The acquisition of Gold Seal, which employs 125 people and has factories in Illinois and New Jersey, will be financed in US dollars, mainly from funds obtained from the recent sale of the Airwick Professional Products unit which was sold to Economics Laboratory.

Some $20m will be paid on completion of the Gold Seal sale and the balance by annual instalments over the next five years.

Galliford down in second half

A SECOND-HALF downturn left Galliford, construction and engineering group, with pre-tax profits down 5 per cent at £2.89m for the year ended June 30, 1986, against £3.04m previously, on turnover £1.56m lower at £83.09m. First-half results had risen from £1.29m to £1.54m.

The company said the main reason for the shortfall was the turnround into losses by its operations engaged in the offshore oil and gas industry. In addition, a further bad debt provision had been made against the Britannia Park project.

However, recovery by the building and civil engineering contracting companies had continued. Inquiry levels and order books had improved over the year and Galliford was confident for the current year outcome.

Overall, the current year had started satisfactorily and indications of slightly better trading conditions augured well for the year's outcome.

Tax charge for the 1985-86 year was lower at £1.12m (£1.37m) and after minority debits of £27,000 (£39,000 credits) net profit came through slightly ahead at £1.74m, against £1.71m. Extraordinary charges rose from £262,000 to £727,000.

Stated earnings per 5p share improved from 6.15p to 6.25p and the final dividend is increased to 3.8p (3.4p) for a net total of 4.8p (4.4p).

The company said its private housing activities in the East Midlands achieved good results and were continuing to make progress.

Group cash position was strong and an improved momentum was becoming apparent.

Etam shows slight rise in difficult conditions

Etam, womenswear retailer, announced interim pre-tax profits of £3.8m for its new 28-week accounting period to August 16, 1986 — an increase of 3.4 per cent over last year's adjusted figure of £3.69m.

Last year's interim figures were calculated over 32 weeks, and the pre-tax profits were £4.37m.

The chairman, Mr Alan Howard, said trading conditions had been difficult, but that the company had traditionally earned most of its profits in the second half of the year.

It had incurred higher capital expenditure of about £13.5m (£4.6m), mostly on acquiring property and extending warehousing facilities.

These investments were seen as a further strengthening of the company's net asset base while increasing its trading potential, he said.

He was confident that Etam would continue to grow steadily, he added.

The company has declared an interim dividend of 1.3p, compared with 1.15p.

Sales were up 14 per cent to £36m, and trading profit after interest payable was up 13 per cent at £3.8m.

Earnings per 10p share have been calculated at 4.47p, compared with 4.15p for the same period last year.

● comment

The market was well-warned about a dull start to 1986-87. Even so, the mere 3 per cent lift in pre-tax profits was slightly below hopes, knocking the shares 4p at 246p. That seems ungrateful, given that balance sheet changes take a chunk of the blame. Starting with a £10m cash pile, Etam spent over £5m on the long leasehold of its Oxford Street outlet, similarly on two West Country freeholds and a further £3m-plus of warehousing. Result: less interest in, more out—costing almost £500,000 overall. Trading-wise, though, gross margins improved by over one point. More problematic is the long-term strategy. Having picked 160 as the original "saturation" number for stores, the company is now looking at 200-plus, compared with the current 124. But that postpones, rather than solves the question of an acquisition. Reasonably-priced opportunities in the £30m-£40m bracket are not ten-a-penny, and Etam cautiously backed out of the Zales bidding at £23m. Shorter-term, the second half is "reasonable," and with more selling area coming on, full year profits could total £13.5m, giving a prospective PE of 14.5. Good value.

Erith boosts profits 68%

A strong recovery in the second quarter enabled Erith, builders' merchant, to lift its pre-tax profit by 68 per cent, from £607,000 t o£1.02m, in the half year ended June 30 1986.

The bad weather again hit sales in the opening quarter. But by the half year-end turnover had irsen 10 per cent to £26.02m and the trading surplus by 33 per cent to £1.44m.

The directors forecast another record year for the group if the current buoyant conditions continued through to December 13. But they tell shareholders not to expect the same percentage increase in profits for the second half as for the first. In the latter half of 1985 the group made £1.13m.

Earnings for the half year were up to 3.36p (1.85p) after tax £372,000 (£251,000). The interim dividend is raised to 1.3p net, from 1.1p.

Albert Martin ahead 10%

Albert Martin Holdings, clothing manufacturer, raised pre-tax profits by 10 per cent from £476,000 to £525,000 for the first half of 1986, on turnover ahead 9 per cent at £18.91m.

Earnings per 20p share were unchanged at 3.8p and the net interim dividend is stepped up from 1.2p to 1.3p—the company has already forecast a total of at least 3.6p this year on capital increased by March's £2m rights issue.

The company said it was continuing to develop the strong foundations already established and should progressively benefit from projects now under way.

Overseas production capacity had been increased by some 20 per cent with the purchase and equipment of a new 23,500 sq ft factory in Macau. With this facility, which was opened in September and the resurgence of good demand from all markets, it was anticipated that overseas profits for the full year would show an improvement.

Net finance charges for the half year were up slightly at £298,000 (£286,000). Tax took £106,000 (£97,000), minorities accounted for £8,000 (£10,000) and last time there was an extraordinary charge of £20,000.

Hartons to raise £5m

Hartons Group, Nottingham-based industrial holding company, is raising £5.2m net, through a rights issue of 5.43m new 7 per cent convertible cumulative redeemable preference shares of £1 each at par. The basis is one convertible for every eight ordinary held.

Hartons said the proceeds would provide it with greater flexibility to take advantage of opportunities in the plastics and distribution industries, without putting constraints upon organic growth. In the short term, proceeds would be used to reduce borrowings.

Directors and their families intend to vote in favour of the rights in respect of their holdings which total 16.05m ordinary shares (36.9 per cent). Certain directors and their family interests have irrevocably undertaken to subscribe for 1.42m convertible preference out of an entitlement of 2.01m shares.

H. Young doubles to £904,323

H. Young Holdings, distribution and financial services group, announced full year pre-tax profits to August 2 of £904,323, more than double the figure for the previous 14 months.

The directors said the results were lower than anticipated after poor second half results from the wine distributor Luc Lacerre and the weakening of the pound.

Gas distributor Readygas improved on its record 1985 performance after the cold start to the year and moving to a new site in the West Midlands.

ECC Electronics' results were adversely affected by the strength of the yen and the D-mark. Easterbright, the sunglasses and spectacle frame distributor acquired in June, produced disappointing results, affected by French franc and D-mark exchange rates.

The write-off of expenses from the abortive launch of the Thames Valley Business Expansion Scheme affected Burlington's results.

Directors said they plan further expansion for the group, including the acquisition of suitable companies.

Shareholders will be paid a final dividend of 2.4p for a final dividend of 3.6p, compared with 3.15p for the 14 month period.

Turnover was £16m, substantially up from last time's figure of £7.15m.

Earnings per share was calculated at 9.91p (11.13p).

Persimmon rights

Shareholders in Persimmon have taken up the recent rights issue to the extent of 3m shares, or 97.4 per cent of the offer.

Shares not taken up have been sold and the proceeds will go to the entitled thereto.

Ealing Electro static in first half

Ealing Electro-Optics, the USM quoted high-precision optical and electro-optical equipment group, yesterday reported a static first-half profit and warned of a disappointing start to the second six months.

First-half 1986 results were adversely affected by the weaker US dollar. Taxable profits of £680,000 were little changed on the equipment "proforma" result of £677,000 for 1985. Sales came to £3.72m (£3.7m).

In the UK, sales and profits were marginally higher, reflecting investment in product development and increased expenditure on advertising. US sales rose 20 per cent in dollar terms, but decreased by 3 per cent when expressed in sterling. US profits fell from £347,000 to £231,000.

The company said yesterday that a weaker market had resulted in a slowdown in orders during the summer and this had taken the buoyancy out of prospects for 1986 as expressed earlier this year.

At the trading level, profits fell from £728,000 to £626,000, with pre-tax results benefitting from interest receivable of £54,000 (£51,000 payable). After tax of £280,000 (£285,000) stated earnings per 5p share were 1p lower at 4p. The interim dividend is 0.7p net—last year's single final was 1.5p on £1.27m pre-tax profits.

DALE ELECTRIC International, power systems manufacturer, showed above-budget profits for the first quarter, Mr Joseph Palmer, chairman, said at the annual meeting. Last year's only two loss makers, Dale Electric and a Thai-based company, were now in profit, he said.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims — International Investment Trust of Jersey, International Thomson, Scottish Television, Thomas Warrington.

Finals—Lawtex, Save and Prosper Sterling Deposit Fund, Tottenham Hotspur.

FUTURE DATES

Interims—	
Alfa-Laval	Oct 10
Greenbank	Oct 8
Martin (Ronald)	Oct 14
Reed (Austin)	Oct 9
Scottish Mortgage and Trust	Oct 16
Willaire Systems	Oct 9
Finals—	
Burgess Products	Oct 27
China and Eastern Investment	Oct 7
Savage	Oct 9
Wolseley	Oct 28

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price	+ or −	Net. Div.	Times Cov'd	Gross Yield	P.E. Ratio
§43	F.P.	—	59	49	‡Broad St. Grp.10p	51	+2	b1.1	2.2	3.0	21.1
§130	F.P.	17/10	195	152	‡Creighton Labs 20p	182	......	U3.7	2.2	2.9	22.1
160	F.P.	24/10	146	123	Euro Home Products 5p	123	−2	R4.25	2.5	4.9	9.5
§105	F.P.	16/10	112	103	‡Eve Construction	103	−1	φ4.5	3.2	6.2	7.2
134	F.P.	—	161	134	‡F & H Group 10p	143	+1	L4.76	2.5	4.7	11.8
§135	F.P.	—	147	145	‡Great Southern 10p	146	......	R5.2	2.2	5.0	12.5
■	F.P.	—	28	27½	Group Development	27½	......	—	—	—	—
150	F.P.	15/8	165	156	Harrison Inds. 10p	158	......	g5.0	2.7	4.5	11.8
105.25	F.P.	—	108	104	India Fund £1	108	......	—	—	—	—
§135	F.P.	24/10	158	145	‡Local London Group 5p	158	+2	W5.0	1.8	4.5	17.8
§105	F.P.	—	150	133	‡Miller & Santhouse 5p	143	......	u2.25	2.4	2.2	26.7
§75	F.P.	24/10	79	73	‡Newage Trans 5p	73	......	R3.5	2.5	6.8	8.3
§25	F.P.	22/10	25½	25½	Nth of Scotland Inv 10p	25½	......	—	—	—	—
195	F.P.	24/10	160	151	Sandell Perkins 10p	160	+2	n3.8	2.9	3.3	14.7
—	F.P.	3/10	18½	9	Sutcliffe Speak Wrnts	16	+½	—	—	—	—
130	F.P.	21/8	173	137	‡TV-am 10p	171	+2	R5.75	2.6	4.7	11.5
‖ ‖	F.P.	—	385	345	‡Utd. Trust & Credit £1	345	−3	u14.0	2.1	5.7	11.9
125	F.P.	10/10	156	136	Yorkshire TV	138	+1	96.25	2.4	6.4	9.3

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc Date	1986 High	1986 Low	Stock	Closing Price £	+ or −
‖	Nil	—	1½pm	1½pm	Comlech Finance 11½% Cnv. Uns. Ln. 1996	1½pm	......
‖	Nil	—	7pm	6pm	‡Goodhead Print 7% Cnv. Red. Prf	7pm	+1
¶ ¶	F.P.	26/9	94p	80p	Hollis 252% Cnv. Subord. Ln. 1988 (2½p)	80p	......
§100	£10	15/5	9½	3¼	Mid-Sussex Water11% Red Deb2012-16	5¼	+¼
§100	F.P.	10/10	110½p	105p	Mountleigh 5.25% Cnv. Cum. Prf.	106p	......
999.937	£25	24/10	25¾	22¼	Nationwide 3¾% IL Ln. 2021	23¾	......
—	F.P.	—	100⅛	98¼	Do 9¾% 7/9/87	98⅛	−⅛
—	F.P.	—	100⅛	99⅛	Do 10⅛% 21/9/87	99⅛	−⅛
§100	F.P.	29/10	100¼	91½	Portsmouth Water 10¼% RedDeb 1996	92½	......
‖	F.P.	24/10	108½p	100p	Rush & Tompkins7.5%Cnv.Cum.Red.Prf.£1	101p	+1
96.645	£25	8/1	24¼	17	Scot. Met. Prop. 10¼% 1stMort.Deb.2016	18½	−2
—	F.P.	—	109½p	104p	Scott. & Newcastle 7% conv. Pref. £1	109½p	+½
—	F.P.	3/10	98p	96p	Sutcliffe Speak 9½% Red. Cum. Prf.	98p	......
¶¶	F.P.	24/10	122p	115p	WCRS 5.5% Cnv. Cum. red. Pref. 1999	117p	+1
¶¶	F.P.	—	95p	92½p	Walker (C & W) 6½pc Cnv Cum Red Pref	94p	......
¶¶	F.P.	—	104p	102p	Williams Hldgs 5¾% Cum Cnv Prf	102p	......

"RIGHTS" OFFERS

Issue Price	Amount Paid up	Latest Renunc Date	1986 High	1986 Low	Stock	Closing Price p	+ or −
125	Nil	—	10pm	10pm	Appleyard Group	10pm	......
120	Nil	21/11	18pm	16pm	Brent Chemicals 10p	18pm	......
195	Nil	24/10	18pm	4pm	Burrel	8pm	......
‖	Nil	24/10	1pm	½pm	Cambiern Venture Cap. 5p	¾pm	......
25	Nil	27/10	8pm	4pm	Christy Hunt	4pm	......
$1.80	Nil	—	12½pm	11pm	E.R.I.C.	11pm	−1½
75	Nil	11/11	30pm	24pm	Ind. Fin. & Inv. Corp.	29pm	−1
215	Nil	24/10	5pm	2pm	New Court Nat.Res. 5p	2½pm	+½
140	Nil	—	15pm	15pm	Tilbury Group	15pm	......
250	Nil	24/10	49pm	43pm	Tiphook 10p	49pm	......
50	Nil	—	7pm	7pm	Thurgar Bardex 10p	7pm	......
60	Nil	21/11	13pm	9pm	United Spring 10p	9pm	−1
60	Nil	—	11	9	Western Selection 20p	9	−1

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. F Forecast dividend cover on earnings updated by latest interim statement. H Dividend and Yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma Figures t Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." §‖ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ■ Allotment price. ‡ Unlisted securities market. †† Official London listing. ‡‡ Including warrants entitlement.

FT CROSSWORD PUZZLE No. 6,141

GRIFFIN

ACROSS

1 Badly rusted buffer (6)
4 First fellow to curse cook gets some sugar! (8)
10 Since admitting I'm a man having no purpose (7)
11 Whenever a hundred in front, it leads to vanity (7)
12 Seldom encountered soldiers again (4)
13 Occupy place in front rank (10)
15 Note saying "return to bed" (6)
16 Muslim claim is confusing (7)
20 Having back arms and leg broken needs cuddle (7)
21 Cakes once prepared on board (6)
24 A bad heart quiver shakes many people (10)
26 One's not bound to be this (4)
28 Ruled out accepting withdrawn order for tyre (7)
29 Though late, got up? (7)
30 The early variety is tough (8)
31 Stopped being cold and relaxed (6)

DOWN

1 Bitter criticism for returning to assist with race (8)
2 Boy taking Maria out helps people in distress (9)
3 Still, the girl has a point (4)
5 He's gone here to channel resort (8)
6 Vehicle one moving house may get (10)
7 Ending with back doctor, say, on first aid (5)
8 Key to public property (6)
9 Out of bed, look round the street (5)
14 Mavis lay, badly hurt, in front of mum (4-6)
17 Illiterate or amusing novel (9)
18 Left in sink to struggle (8)
19 Rose finished as Carl started to go in front (8)
22 A driver in a tank (6)
23 Went downhill fast? (5)
25 Drink before Jack gets up to dance (5)
27 A collector that goes in foot (4)

Solution to Puzzle No 6,140

SPARSE BUNGALOW / RAGGED GENTIANS / CONSTANT BERTHA / WAIF REASSEMBLE / THEMARINES ADIT / BODEGA ASPIRING / ERECTORS TATTLE / UNDERPAY TENNIS

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

[illegible]

AUTHORISED UNIT TRUSTS & INSURANCES

Waverley Asset Management Ltd (a) (c) (g)
13 Charlotte Sq, Edinburgh 031-225 1551

Australasian Gold	23.3	24.9	+1.1	0.15
Pacific Basin	20.3	21.7	+0.4	0.2
Canadian Balanced Growth	39.4	42.4	+0.8	0.98
Ginnie Mae	101.9	106.1	-0.1	7.1

WestArca Unit Trust Managers Ltd(a)(c)
9 Portland Square, Bristol BS2 8SS 0272 428431

British Smllr Co's (z)	56.3	57.9	+0.1	1.5
British Growth (z)	64.8	66.6	+0.2	2.5
British Income (z)	63.3	65.1	+0.3	4.75
British Extra Yield(z)	49.4	50.8	-0.1	7.0

Whittingdale Unit Trust Managers
2 Honey Lane, London EC2V 8BT 01-606 9085/6

Short Dtd Gilt Fd	67.7	68.8	----	—
U.S. Govmnt Bond Fd	50.502	0.514	----	—

Windsor Trust Mngrs Ltd
83 Kingsway, London, WC2B 6SD 01-405 8331

Capital & Equity Tst	47.7	50.8	----	7.75
Growth Trust	50.9	54.2	----	2.28
Income Trust	53.0	56.4	----	5.15

Wright Seligman Fund Managers Ltd
11 Blomfield St, London EC2M 7AY 01-588 0592

Growth Fund	66.8	70.3	----	2.90

Weekly dealing day Tuesday

The Yorkshire General Trust
Woodsome Pk, Fenay Bdge, Huddersfield 0484 602250

Y.G.T.	124.8	132.8	----	3.26

INSURANCES

AA Friendly Society
(Investment Mngt M & G Inv Mngt Ltd)
PO Box 93 Cardiff CF1 4NW 0222 35542

AA Friendly Sy Aug 12	—	105.9	----	—

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

Prop. Ser. 1	206.6	217.5	----	—
Equity Ser. 1	99.4	104.7	+1.0	—
Prop. Acc. Ser 2	278.1	292.8	----	—
Equity Ser 2	108.0	113.7	+0.9	—
Selective Acc.	232.7	245.0	+1.0	—
Prop. Ser. 4	219.6	231.2	----	—
Equity Ser. 4	111.6	117.5	+0.9	—
Fixed Int. Ser. 4	174.8	184.1	-1.3	—
Indexed Inv. Ser. 4	110.3	116.2	-0.3	—

City of Edinburgh Life Assurance
46 Charlotte Sq, Edinburgh EH2 4HQ 031-225 1655

Ivory & Sime Bond	103.0	109.0	----	—
Risk & Reward Bond	123.0	130.0	----	—
Murray Johnstone Fd	123.0	130.0	----	—
Money Market Fd	107.0	113.0	----	—
Ivory & Sime Pens Fd	106.0	111.0	----	—
Risk & Reward Pens Fd	105.0	111.0	----	—
Murray J'stone Pens Fd	120.0	127.0	----	—
Money Market Pens Fd	107.0	113.0	+3.0	—

City of Westminster Assurance
Sentry House, 500 Avebury Boulevard, Cent Milton Keynes MK9 2NU Tel: 0908 690888

Current Series

Property Fund	115.7	121.8	----	—
Money Fund	223.0	234.8	----	—
Managed Fund	401.5	422.7	+2.0	—
Equity Fund	248.9	262.0	+2.6	—
Fixed Interest Fund	140.1	147.5	+0.9	—
Far East Fund	219.4	231.0	-1.5	—
North American Fund	165.5	174.3	+0.1	—
Natural Resources Fund	144.0	151.6	+4.4	—
Pension Managed Fund	372.6	392.3	+2.4	—
Pension Equity Fund	235.6	248.0	+2.2	—
Adventurous Mngd Fd	114.0	120.0	+0.5	—
Balanced Mngd Fd	110.9	116.8	+0.9	—
Conservative Mngd Fd	107.2	112.9	+0.7	—
European Fund	105.5	111.1	-0.4	—
International Fund	115.3	121.4	-0.3	—
S.U.N. Flagship Fd	123.0	129.5	-14.0	—

For other prices please telephone 0908 606101/690888

Clerical Medical/Fidelity International
Narrow Plain, Bristol BS2 0JH 0272 290566

Investment Funds

Mixed	131.2	138.2	-0.1	—
Equity	148.1	155.9	+0.1	—
Property	109.6	115.4	+0.4	—
Gilt & Fixed Interest	106.4	112.0	-1.3	—
Indexed Securities	98.1	103.3	-0.5	—
Cash	107.8	113.5	+0.1	—
North American	106.9	112.6	+0.2	—
Far East	129.5	136.4	-3.0	—
International	124.8	131.4	-0.1	—
Special Situations	142.5	150.0	-1.0	—
International Income	138.7	146.0	-0.4	—
American Income	116.6	122.8	-0.2	—
European	148.8	156.7	+1.8	—

Flexible Retirement Plan

Mixed	134.6	141.7	-0.2	—
Equity	142.0	149.5	+0.8	—
Property	114.5	120.6	-0.1	—
Gilt & Fixed Interest	111.2	117.1	-2.1	—
Indexed Linked	100.1	105.4	-0.4	—
Cash	115.8	121.9	----	—
North American	111.5	117.4	+0.3	—

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INSURANCE, OVERSEAS & MONEY FUNDS

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

Money Market Trust Funds

Money Market Bank Accounts

Save & Prosper/Robert Fleming
28 Western Rd, Romford RM1 3LB. 0708 66966
H.I.C.A. 9.25 6.90 10.06 Daily

Tyndall & Co
29-33 Princess Victoria St, Bristol 0272 732241
Demand Acc 9.90 7.40 10.73 Qr
Money Acc 9.36 7.00 10.12 Qr

J. Henry Schroder Wagg & Co Ltd
Enterprise House, Portsmouth 0705 827733
Special Acc 8.75 6.54 9.49 Mth
Over £10,000 9.00 6.73 9.77 Mth

Western Trust & Savings Limited
The Moneycentre, Plymouth PL 1SE 0752 224141
High Int Chq Acc 9.94 7.43 10.76 Qr

Wimbledon & South West Finance Co Ltd
114 Newgate St, London EC1A 7AE. 01-606 9485
High Int Cheque Acc 11.0 8.22 11.94 Qr

NOTES—Gross: rate to those exempt from composite rate of tax. Net: actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited.

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. # Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ♦ Yield column shows annualised rates of NAV increase. xd ex dividend.

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		
Allied-Lyons	30	NEI	11
Amstrad	23	Nat West Bk.	48
BAT	35	P & O Dfd	45
BOC Grp.	28	Plessey	18
BSR	11	Polly Peck	16
BTR	28	Racal Elect	16
Babcock	17	RHM	20
Barclays	45	Rank Org Ord	45
Beecham	40	Reed Intnl	75
Blue Circle	55	STC	16
Boots	22	Sears	12
Bowaters	30	TI	42
Brit Aerospace	45	Tesco	32
Brit. Telecom	17	Thorn EMI	48
Burton Ord	28	Trust Houses	15
Cadburys	17	Turner Newall	18
Charter Cons.	22	Unilever	120
Comm Union	28	Vickers	40
Courtaulds	26	Wellcome	17
FNFC	17	**Property**	
Gen Accident	75	Brit Land	16
Gen Electric	17	Land Secs	30
Glaxo	85	MEPC	32
Grand Met	34	Peachey	24
GUS 'A'	85	**Oils**	
Guardian	75	Brist. Oil & Min.	$2\frac{1}{2}$
GKN	32	Brit Petroleum	48
Hanson Tst.	16	Burmah Oil	38
Hawker Sidd.	48	Charterhall	4
ICI	55	Premier	$3\frac{1}{2}$
Jaguar	38	Shell	55
Ladbroke	32	Tricentrol	11
Legal & Gen	24	Ultramar	18
Lex Service	28	**Mines**	
Lloyds Bank	58	Cons Gold	49
Lucas Inds	52	Lonrho	24
Marks & Spencer	18	Rio T Zinc	50
Midland Bk.	44		
Morgan Grenfell	38		

A selection of Options traded is given on the London Stock Exchange Report Page.

COMMODITIES AND AGRICULTURE

Labour unrest may disrupt Rustenburg platinum

BY JIM JONES IN JOHANNESBURG AND STEFAN WAGSTYL IN L ONDON

PLATINUM PRODUCTION at Johnsen Matthey's South African refinery could be in danger of disruption as a result of redundancies and deteriorating labour relations.

Employees of Matthey Rustenburg Refiners' (MRR) Wadeville Refinery east of Johannesburg have rejected management plans to introduce rotational shifts. Mr Rod Compton, the general secretary of the *Chemical Workers' Industrial* Union (CWIU), says that shift working proposals have been rejected in solidarity with British employees made redundant by MRR at its Royston refinery, north of London. The CWIU believes that MRR has miscalculated and wants to increase refined metal output in South Africa to make up lower output in England arising from the retrenchments.

Johnson Matthey in London said that about 20 MRR employees at Royston had been made redundant recently as a result of cut-backs in production. Production was being reduced at an experimental solvent extraction plant, which was the technological model for a new refinery under construction in South Africa.

Labour relations are particularly poor in South Africa as a result of Rustenburg Platinum Holdings' plans to establish a new refinery in theso-called "Independent" homeland of Bophuthatswana. The new R250m (£79m) refinery is due to start production in 1988 and will process Rustenburg's entire output. At that stage Wadeville and Royston will be phased out of production and eventually closed. British and South African union representatives met recently to discuss possible joint action on the Wadeville and Royston closures. In South Africa a view gaining ground among union members is that there is nothing to lose by making the transition to Bophuthatswana as difficult as possible.

The CWIU alleges that the move to Bophuthatswana is planned because the homeland is a "union-free" area. Bophuthatswana law effectively blocks black unionisation in the homeland's mines and factories, though white mine employees are represented by racially exclusive white South African unions. Rustenburg's management will not discuss the new shift plans at Wadeville nor the Royston retrenchments, but says that the move to Bophuthatswana is based solely on commercial considerations and was not planned to take advantage of the homeland's barriers to unions.

Mr Compton says that management at the Wadeville refinery will not disclose the effect on production of the new shifts nor staffing plans when refining is transferred to the homeland.

In London, platinum closed $19.75 up at $579.50 an ounce and gold ended $9.875 higher at $432.875 an ounce. In New York, where much of the speculative activity was centred, the platinum futures contracts on the New York Mercantile Exchange rapidly climbed to their daily maximum permitted rise of $25 an ounce in heavy trading. In the spot position, where limits are not applied, the metal was trading $41 an ounce up at $596 an ounce.

On the Commodity Exchange, gold for December delivery was trading $11.60 an ounce higher at $440.50 late in the day.

US trader agrees to pay $1.5m penalty

By David Owen in New York

CONTICOMMODITY Services has agreed to pay $1.5m to settle Commodity Futures Trading Commission charges arising from the company's past silver trading and *arbitrage activities.* The sum is the largest civil penalty ever imposed by the Washington-based commodities watchdog.

In February 1985, the CFTC charged a number of companies and individuals, including Conticommodities and the Bunker Hunt brothers with illegally manipulating silver prices in 1979 and 1980. Some of these charges, including those against the Hunts, are still pending.

The present Conticommodity settlement covers both this charge and a more recent complaint charging the company and 13 employees with various violations involving sugar, cocoa and Government securities arbitrage programmes between 1982 and 1984. The programmes sought to take advantage of price *discrepancies* between markets in London and New York.

The company, which was acquired last year by Refco, agreed to settle the CFTC's charges in both cases without admitting or denying guilt. It also agreed not to violate commodity trading laws in future, to continue winding down its business as a futures broker and never to seek registration with the CFTC in any capacity. Four of the 13 employees implicated in the arbitrage case agreed to settle the new charges and to pay fines as part of the settlement.

In a related settlement, accounting firm Arthur Andersen agreed to pay a $50,000 penalty to settle a CFTC complaint that it failed adequately to report material inadequacies disclosed by its 1983 audit of Conticommodity. Andersen settled without admitting or denying guilt.

Court defers LME tin crisis claim

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

THE HIGH court has deferred a hearing into claims by the London Metal Exchange committee that they should be indemnified by 240-odd exchange members in the action they face from Shearson Lehman Brothers and Shearson Lehman Metals, which arises from the tin crisis.

At a private hearing in the High Court yesterday, Mr Justice Leggatt directed that the third party proceedings against the 240-odd LME members should not be dealt with until after the trial of the main action, fixed for June 2 next year.

The judge also directed that any findings in the main action should not be binding on the third parties.

A group of 141 LME members had sought an unconditional stay, which was opposed by the committee and by some other LME members.

In the £94m main action, the committee members are co-defendants with two LME traders—Maclaine, Watson and J. H. Rayner (Mincing Lane), and The Metal Market and Exchange Company (MMEC)—the formal title of the company running the LME.

When the Shearson writ was issued in April it sued the 14 committee members "on their own behalf and on behalf of all other" members of the LME.

The following month Shearson narrowed the scope of the claim by dropping its plan to make all LME members potentially liable for damages.

Subsequently, however, the whole LME membership was brought back onto the scene by the decision of the committee members to initiate third party indemnity proceedings.

Rudolf Wolff launches private clients service

BY STEFAN WAGSTYL

RUDOLF WOFF, one of London's oldest commodity trading companies, is diversifying from its traditional business with trade clients and launching a new service for private investors.

The move could help the company, a founder member of the London Metal Exchange, mitigate the effects of the long recession in commodity prices and to recover from the impact of the tin crisis, in which it lost £18.7m.

Rudolf Wolff, like several other *commodity brokers,* already has private clients on its books. But it believes that the establishment of a separate service is a new departure for any of London's old-established commodity traders, which have long prided themselves on serving the trade and frowned on acting for speculative investors.

Mr Francis Holford, chairman, said the company was actively marketing its service with mail-shots. "If we get 200 or 300 people we will be delighted; 100 would be good business."

Wolff, a subsidiary of the Canadian mining group Noranda, is trying to recover after a difficult year. The tin crisis not only brought financial loss to the Wolff but put paid to an attempt by Noranda to sell the company. In the event, Noranda sold off Wolff's fast-growing financial services business but retained the metals and soft commodities operations. Mr Bruce Leeming, Wolff's managing director, resigned over the decision to split the company.

After Wolff lost £20.1 pretax in 1985 Noranda injected £23.4m new capital into the company gicing it a net worth of £12.5m. Mr Holford said that after reaching a low-point in June morale was recovering.

NFU opposes voluntary fallowing scheme

By Our Commodities Staff

BRITAIN'S NATIONAL Farmers' Union is in favour of farmers being required to fallow cereal land in an effort to reduce the grain mountain which is causing an increasingly heavy drain on EEC funds. But it opposes the principal of voluntary participation included in the "set-aside" scheme proposed by Mr Michael Jopling, *Britain's Minister of Agriculture* and the current president of the EEC Farm Council, at an informal meeting of Community Agriculture Ministers in the Lake District on Tuesday.

A voluntary scheme would result in land being taken out of production in Wales but not in the East Anglian grain belt, Mr Simon Gourlay, the NFU president, told a farmers' meeting in Carmarthen, Wales.

He said the set-aside approach to dealing with Europe's cereals surplus could not be effective unless it was compulsory for all growers. The voluntary scheme was really designed to provide a life-line for marginal cereal producers while price pressure was applied to the rest.

Mr Gourlay said this pressure would drive cereal growers into sheep or other sectors of agriculture or horticulture which already had their ows problems.

"I know there are fears in this part of the world that measures taken to resolve the cereals crisis will drive growers in England to go into sheep and ruin your livelihoods," the NFU president told his Welsh audience. "I assure you that our own compulsory set-aside scheme is designed precisely to avoid that."

Mr Gourlay denied press reports which had suggested the Union was totally opposed to the Minister's scheme.

"In fact we have been pressing for a set-aside scheme for some time, and we are glad that Mr Jopling has now taken this on board," he declared. "But we do feel that in his scheme the principle of voluntary participation is wrong."

He insisted that an effective scheme would require all cereal growers to leave part of their acreage fallow. "They must not use it for grass to feed sheep or beef."

He admitted, however, that there were elements in the Minister's scheme which were worth looking at. "We are currently seeing whether some of them could be incorporated in the NFU's flexi-quota mechanism," he said.

Under the "flexi-quota" scheme farmers would have to notify their planting intentions to the EEC authorities. If it was decided that the total was too high they would be instructed to fallow a proportion of their planned acreages. Overplanting would be penalised by fines reflecting the degree of flagrance of the abuse.

Mr Jopling's scheme, aimed at avoiding an "horrific" 80m tonnes EEC grain mountain in five years time by diverting 7.5m acres (10 per cent of the total) away from cereal production, was given a guarded but not unencouraging reception

Mr Francios Guilliaume, the French Agriculture Minister, would prefer subsidisation of exports to Third World nations. And Mr Ignaz Kiechle, the West German Minister, will be seeking an undertaking that the set-aside would be applied instead of, rather than in addition to, further cuts in cereal price guarantees.

Mr Kiechle's line will be resisted by Mr Jopling and Mr Frans Andriessen, the EEC Farm Commissioner.

Nickel setbacks add to Cuba's problems

BY CANUTE JAMES

AT JUST under 15,000 tons Cuba's nickel output for the first half of this year represents a setback for the island's industry in a year in which the introduction of new capacity was expected to boost production.

Continuing problems in commissioning a major new plant makes it likely that production this year will be less than last year's 33,400 tons in oxide and sinter, which was about 5,000 tons below 1984 output.

As the world's fifth biggest nickel producer Cuba has been attempting for the past five years to more than double capacity and output, but has been unable to move much beyond 40,000 tons even in the best years.

The industry rests on known reserves of 19m tons of ore—about a tenth of global reserves—with nickel content of between 0.8 per cent and 1.4 per cent.

Operations have been based on facilities at Nicaro and Moa Bay, and hopes for expansion are based on plans for two new Soviet-designed plants with rated annual capacity of 30,000 tons each.

The Cuban Government had set a target for national output of 100,000 tons per year by 1992. But this has been torpedoed by continuing technical and design problems at the first of the new refineries located at Punta Gorda in the east of the island.

Construction of the plant began a decade ago, with the aim of commissioning it in 1985. But it was not until February of this year that the Government was able to announce a start of operations, and only one of the plant's three lines was brought on stream.

Full rated capacity was scheduled for the middle of next year, the Government said, bringing national installed capacity to 70,000 tons and 1987 output to at least 50,000 tons.

Even this reduced projection, however, appeared to have been too optimistic. The problems which have plagued the plant, and on which the Cuban Government has given few specific details, have continued. The Government has been forced to adjust the schedule, and will now bring the second 10,000 ton line on stream in the middle of next year. The third is not expected to be operational until 1990.

Diplomats in Havana report that Government officials have explained that the delay has been caused by the low international prices for nickel. The envoys interpret the delay as being related to Punta Gorda's decade of problems.

It will be several years before that troubled plant will repay its estimated $600m cost. The one 10,000-tons-a-year line which is operating is not now expected to produce more than 1,200 tons this year against an original target of 5,000 tons.

The effort to raise capacity and output to the 100,000 tons-a-year mark will clearly not be achieved by the Governments target year and whether it is ever achieved will depend on the successful completion of the final leg in the the expansion of the industry—the second and similarly much-delayed plant being constructed at Las Camariocas.

The Government abandoned earlier efforts to bring both new plants into operation simultaneously, and concentrated instead on Punta Gorda. Las Camariocas, for which

CUBAN NICKEL

	Mine production ('000 tons)	Percentage of world total
1985	33.4	4.9
1984	38.0	5.0
1983	39.3	5.9
1982	37.4	6.0
1981	40.3	5.6
1975	37.3	5.0
1965	29.1	6.9

Source: Shearson Lehmen Bros (except 1985 figures)

Hungary was earlier reported to be providing some of the projected $650m cost, is still scheduled to be brought on stream in 1992.

Achieving this deadline is likely to be affected by current concentration on getting Punta Gorda's problems resolved, and the diplomats have suggested that Las Camarioca's commissioning will not materialise before 1995.

Although much of the output from the Punta Gorda plant is expected to go to the Soviet Union and other East European countries, the government is hoping that at least half can be sold to the West, particularly to West Germany, Italy and the UK.

Government officials appear confident that these hard currency markets can be found, in spite of continuing efforts by the US to discourage western purchasers of Cuban nickel.

The start-up of the one line at Punta Gorda coincides with indications of interest in purchasing nickel and nickel products by countries which have not been traditional markets. Cuba has been trying to interest countries which need nickel for their stainless steel industries, and appears to have been encouraged by an order for 200 tons obtained by Cubaniquel, the state company, from the Steel Authority of India.

The Cubans are also hoping that they will be able to increase shipments to Argentina which last year ordered 162 tons of nickel oxide sinter.

The effort to find new western *markets has forced* Cuba into looking at new products. The Government is attempting to interest traditional buyers of sinter to consider purchasing briquettes and cathodes, and is also pressing ahead with plans to extract iron from the nickel waste.

The expansion in *nickel* output was planned to strengthen the economic base of the Cuban economy, but the delays are likely to prove particularly costly because of problems which have overtaken other major commodity exports. Sugar has been suffering from low prices for the island's sales to western consumers, while the fall in price of petroleum has reduced earnings from re-exports of Soviet oil.

LONDON MARKETS

THE SLIDE in copper prices continued on the London Metal Exchange yesterday with the cash Grade A quotation ending £6.50 down at £917.25 a tonne. The £26.25 fall over the last three days has now wiped out all but a few pounds of the rally achieved over the preceding two weeks, which had largely been a reflection of sterling's weakness. Other base metals were also generally lower yesterday but the LME's cash zinc price registered at £13.50 rise to £627 a tonne, a 20-month high. Dealers said the strength of the zinc market continued to reflect supply tightness caused by output disruption by strikes in the US. This tightness was reflected in a widening in the premium for cash metal over three months from £4.75 to £9.25 a tonne. On the coffee futures market values steadied somewhat following the *heavy sell-off of the past week* with the November position ending £40 up at £2,237.50 a tonne.

LME prices supplied by Amalgamated Metal Trading.

ALUMINIUM

	Unofficial close (p.m.) £ per tonne	+ or —	High/Low
Cash	827-9	—20.5	842/830
3 months	816.5-7	—1.75	818/813

Official closing (am): Cash 834-5 (843-4)— three months 814-5 (813.5-4): settlement 835 (844). Final Kerb close: 816-7. *Turnover:* 49,200 tonnes.

COPPER

Grade A	Unoffic'l close	+ or —	High/Low
Cash	917.-7.5	—6.5	921.0/919
3 months	941.5-2	—5	946/939

Official closing (am): Cash 919.5-20 (927-8); three months 944-4.5 (952-2.5): settlement 920 (928). Final Kerb close: 941-2.

Standard			
Cash	894-7	—3	898/897
3 months	920-1	—2.5	923

Official closing (am): Cash 897.5-8 (902-2.5): three months 922-3 (928-30): settlement 898 (902.5). US producer prices: 64-68 cents per lb. Total turnover: 45,100 tonnes.

LEAD

	Unofficial close (p.m.) £ per tonne	+ or —	High/Low
Cash	276.25-6.5	—1.63	276.75/276
3 months	281-1.5	—0.75	282.5/280.5

Official closing (am): Cash 276.5-6.75 (276-7): three months 281.5-2 (281.75-2): settlement 276.75 (277). Final Kerb close: 281-1.5. Turnover: 6,225 tonnes. US Spot: 23-24 cents per lb.

NICKEL

	Unofficial close (p.m.) £ per tonne	+ or —	High/Low
Cash	2565-70	+10	2565
3 months	2615-20	+5	2625/2620

Official closing (am): Cash 2570-5 (2555-65): three months 2623-5 (2613-5): settlement 2575 (2565). Final Kerb close: 2615-20. Turnover: 2,628 tonnes.

TIN

Kuala Lumpur Tin Market: Close 14.10 (14.07) ringgit per kg. Up 0.03 ringgit per kg.

ZINC

High grade	Unofficial close (p.m.) £ per tonne	+ or —	High/Low
Cash	626.5-7.5	+13.5	622/621
3 months	617.5-8	+9	622/606

Official closing (am): Cash 621.5 (612.75-3.25): three months 614.5-5 (609-9.5): settlement 622 (613.25). Final Kerb close: 619-20. Turnover: 21,300 tonnes. US Prime Western: 44-47.50 cents per lb.

GOLD

Gold rose $9⅞ an ounce from Wednesday's close in the London bullion market yesterday to finish at $432½-433¼. The metal opened at $425¾-426 and touched a low of $424¾-425¼ before improving in the afternoon as silver and platinum both improved. Gold touched a high of $434-434½.

GOLD BULLION (fine ounce)	Oct. 2	
Close	$432½-433¼	(£301¼-302)
Opening	$425¾-426	(£295-295¾)
M'n'g fix	$425.50	(£295.691)
Aft'n'n fix	$431.30	(£300.662)

GOLD AND PLATINUM COINS		
Kr'g'r'nd	$424-426	(£295¾-297¼)
½ Krug	$228-229¼	(£159-159¾)
¼ Krug	$116-117	(£81-81½)
1/10 Krug	$47-47⅞	(£32¾-33¼)
Mapleleaf	$455-458	(£317½-319½)
Angel	$437-441	(£304¾-307½)
1/10 Angel	$46½-50½	(£31¾-35¼)
New Sov.	$101-103	(£70½-71¾)
Old Sov.	$104½-106½	(£73-74¼)
$20 Eagle	$480-530	(£333¾-369¾)
Noble Plat	$590-601	(£411½-419¼)

SILVER

Silver was fixed 1.9p an ounce higher for spot delivery in the London bullion market yesterday at 387.3p. US cent equivalents of the fixing levels were: spot 558c, down 1.1c; three-month 583.95c, down 1.15c; six-month 571.7c, down 1.65c; and 12-month 588.35c, down 1.35c. The metal opened at 385-386½p (555-557c) and closed at 396½-397p (568-570c).

SILVER per troy oz	Bullion Fixing Price	+ or —	L.M.E. p.m. Unoffic'l	+ or —
Spot	387.30p	+1.90	393.5p	+12.5
3 months	397.45p	+2.10	404.5p	+15.5
6 months	407.90p	+2.50	—	—
12 months	429.15p	+5.50	—	—

LME — Turnover: 4 (4) lots of 10,000 oz.

Three months high 405p, low 404p, final kerb 403-5p.

MEAT

Month	LIVE CATTLE Y'day's close	+ or —	LIVE PIGS Y'day's close	+ or —
Oct	96.50	+0.50	103.50	—
Nov	97.00	—1.50	104.40	—0.10
Feb	—	—	98.50	—
Apr	99.00	+0.50	99.50	+0.50

Cattle sales: 0 (0) lots of 5,000 kg. Pig sales: 17 (10) lots of 3,250 kg. MEAT COMMISSION—Average fatstock prices at representative markets. GB—Cattle 93.10p per kg lw (+1.27). GB—Sheep 126.83p per kg est dcw (+10.41). GB—Pigs 78.54p per kg lw (—2.93).

REUTERS INDICES

Oct. 2	Oct. 1	M'th ago	Year ago
1555.9	1557.0	1475.0	1699.1

(Base: September 18 1931=100)

DOW JONES

Dow Jones	Oct 1	Sept 30	M'th ago	Year ago
Spot	125.11	124.07	—	115.25
Fut	122.65	124.14	—	116.45

(Base: December 31 1931=100)

MAIN PRICE CHANGES

In tonnes unless otherwise stated.

	Oct. 2 1986	+ or —	Month ago
METALS			
Aluminium			
Free Market	$1515/535	—15	$1520/540
Copper			
Cash Grade A	£917.25	—6.5	£903
3 mths	£941.75	—5	£919.75
Gold Troy oz	$432.875	+9.875	$406.5
Lead Cash	£276.37	—1.88	£274.5
3 mths	£281.25	—0.75	£276.37
Nickel			
Free Mkt	167/187c	—1	175/185c
Palladium oz	$141.00	+2.5	$145.00
Platinum oz	$579.50	+19.75	$644.50
Quicksilver†	$140/180		$135/145
Silver troy oz	387.30p	+1.90	352.45p
3 mths	397.45p	+2.10	360.70p
Tin			
free mkt	£3818/850	+15	£3696/10
Tungsten	$51.85		$52.75
Wolfram 22.0lb	$32/42		$35/45
Zinc	£627	+13.5	£583.12
3 mths	£617.75	+9	£586.25
producers	$920		$848/888
OILS			
Coconut (Phil)	$297.5w	+17.5	$250
Palm Malayan	$252.5v	+7.5	$205
Copra (Phil)	$180		$150
Soyabean (U.S.)	$166		$155
GRAINS			
Barley Fut. Jan.	£110.55	—0.85	£107.75
Maize	£146.50	+0.5	£152.75
Wheat Fut. Jan.	£109.40	—0.85	£106.75
No. 2 Hard Wint.	‡		‡
OTHERS			
Cocoa Ft. Mar.	£1556.5	+21.5	£1549.5
Coffee Ft. Jan.	£2192.5	+15	£2354
Cotton A Ind.*	50.05c	+0.4	39.85c
Gas Oil Nov.	$129.75	+1.25	$139.5
Rubber (kilo)	66p		60.5p
Sugar (raw)	$118.5w	—4	$122
Wooltops 64s	588p kilo		587pkilo

‡Unquoted. † Per 75 lb flask. c Cents a pound. * Cotton outlook. y Nov. w Oct-Nov. v Dec.

COCOA

Although weaker on the opening futures recovered strongly in the late afternoon and closing values were near the highs. Physicals still failed to attract producers but some light consumer offtake was noted at the lower levels, reports Gill and Duffus.

COCOA	Yesterday's close £ per tonne	+ or —	Business Done
Dec	1512-1513	+16.5	1514-1481
March	1556-1557	+21.5	1557-1521
May	1580-1581	+22.0	1584-1545
July	1597-1598	+20.0	1580-1588
Sept.	1614-1615	+17.0	1616-1588
Dec.	1635-1638	+20.5	1635-1606
March	1660-1665	+14.0	1647-1625

Sales: 4,174 (2,583) lots of 10 tonnes. ICCO indicator prices (US cents per pound). Daily price for October 2: 95.32 (95.21): five-day average for October 3: 95.41 (95.52).

COFFEE

After five days of continual selling and a drop of £415, London staged a minor correction, reports Drexel Burnham Lambert. The opening round *further technical liquidation which was* absorbed by roaster price-fixing and trade house buying. With physical activity picking up the market was prompted into a rally. Any shorts from earlier in the week took profits and ran prices up £100 from the lows. After a quiet afternoon's trading with a moderately steady New York market, prices closed off the highs.

COFFEE	Yesterday close	+ or —	Business Done
Nov	2235-2240	+40.0	2260-2160
Jan	2190-2195	+15.0	2250-2145
Mar	2135-2148	+2.5	2170-2085
May	2115-2125	+15.0	2155-2080
July	2115-2130	+22.5	2115-2090
Sept	2115-2148	+92.5	2118-2085
Nov	2100-2150	+188.0	—

Sales: 7,289 (10,983) lots of 5 tonnes. ICO indicator prices (US cents per pound) for October 1: Comp. daily 1979 166.52 (175.92): 15-day average 181.64 (182.40).

GRAINS

Wheat eased sharply on confirmation of French intervention release, reaching 60p before rallying on restitution optimism to close with good two-way shipper trade. Barley eased on fringe shipper selling, but firmed on wheat/barley switching, reports T. G. Roddick.

Mnth	WHEAT Yesterday's close	+ or —	BARLEY Yest'rdy's Close	+ or —
Nov	107.40	—0.50	108.65	—0.89
Jan	109.40	—0.85	110.55	—0.88
Mar	111.65	—0.85	112.60	—0.85
May	114.10	—0.85	113.85	—0.85
July	116.75	—	—	—
Sep	99.85	+0.25	100.00	+0.45
Nov	102.35	+0.10	102.65	+0.45

Business done—Wheat: Nov 107.70-7.30, Jan 109.90-9.30, Mar 112.00-1.70, May 116.55-4.10, July untraded, Sep 99.85-9.60, Nov untraded. Sales: 477 lots of 100 tonnes. Barley: Nov 109.00 8.65, Jan 110.95-10.40, Mar 112.70-2.60, May 113.85, Sep untraded, Nov untraded. Sales: 121 lots of 100 tonnes.

LONDON GRAINS—Wheat: US dark northern spring No 1 15 per cent Oct 98.25, Nov 99.75, Dec 100.75. US No 2 soft red winter Oct 103.25, Nov 105.26, Dec 107.00. French 11½-12 per cent Oct 132.00. English feed fob Oct 112.00, Nov 112.50 seller, Dec 113.50 buyer, Jan/March 114.75-115.25, April/June 118.00-118.50 buyer/sellers east coast. Maize: US No 3 yellow/French transhipment east coast Oct 148.50. Barley: English feed fob Jan/March 116.25 paid east coast, Oct 111.00-111.50 buyer/seller, Nov 114.00 seller, Dec 115.50 buyer, Jan/March 116.50 seller, April/June 118.50 buyer.

HGCA—Locational ex-farm spot prices (including 10-responsibility levy of £3.373 a tonne): Feed barley: S East 107.60, S West 108.60, W Mids 105.80, N West 105.70. The UK monetary coefficient for the week beginning Monday October 6 is expected to be unchanged.

SOYABEAN MEAL

	Y'sterd'ys close £ per tonne	+ or —	Business done
October	155.5-155.5	—0.25	—
Dec.	154.8-155.6	+0.58	154.5
Feb.	154.5-155.6	+0.45	—
April	155.0-157.5	+0.20	—
June	154.9-155.5	—	—
August	155.5-155.8	+0.25	—
October	155.5-155.5	—	—

Sales: 75 (126) lots of 20 tonnes.

RUBBER

PHYSICALS—The London market opened easier, remained quiet and closed uncertain due to currency fluctuations, reports Lewis and Peat. Closing prices (buyers): Spot 66.00p (same); Nov 65.00p (64.90p); Dec 65.00p (64.80p). The Kuala Lumpur fob price (Malaysian cents a kilo): RSS No 1 299.5 (230.0) and SMR 20 203.0 (205.0).

FUTURES—Index 852, Nov 848-858, Dec 650-660, Jan-March 658-668, April-June 668-677, July-Sept 671-682. Sales: nil.

US MARKETS

GOLD AND PLATINUM futures attracted good renewed buying interest, as a firm but mainly quiet London spot market confirmed the consolidation of the week so far and encouraged the re-establishment of long positions as December gold moved above $430 per ounce on the opening and October platinum opened a full $10 up, reports Heinold. Respective highs of $443 and $603 were only marginally taken back on the close. Some traders were optimistic that the resistance level at $450 in the December gold position, unbreachable two weeks ago, was again the target of many. One possible background influence was another steady session in the crude oil market, which in spite of a generally bearishly-interpreted API report gained 20c in the November delivery to approach the close near its high of $15.43. The imminent Opec meeting was seen to be encouraging further short-covering. Coffee made up some of the ground lost recently after a strong London morning session. However, the net gain of 3.25c in the leading December position disappointed many

NEW YORK

ALUMINIUM 40,000 lb, cents/lb

	Close	High	Low	Prev
Oct	51.65	—	—	51.85
Nov	51.75	—	—	51.75
Dec	52.10	52.25	52.05	52.40
Jan	52.15	—	—	52.45
March	52.45	—	—	52.70
May	52.70	—	—	52.95
July	52.95	—	—	53.20
Sept	53.15	—	—	53.40
Dec	53.25	—	—	53.50
Jan	53.45	—	—	53.70

COCOA 10 tonnes, $/tonne

	Close	High	Low	Prev
Dec	2047	—	2001	1983
March	2061	2074	2005	2016
May	2080	2090	2030	2040
July	2098	2095	2047	2065
Sept	2115	2081	2065	2080
Dec	2126	2093	2065	2092
March	2120	—	—	2090

COFFEE "C" 37,500 lb, cents/lb

	Close	High	Low	Prev
Dec	195.22	195.80	192.00	191.57
March	187.25	187.50	184.75	185.00
May	188.25	188.50	184.78	188.78
July	186.85	187.00	186.00	186.70
Sept	186.02	186.25	184.78	186.78
Dec	186.63	187.75	186.50	190.50
March	186.50	—	—	185.00

COPPER 25,000 lb, cents/lb

	Close	High	Low	Prev
Oct	59.30	58.90	58.90	59.15
Nov	59.80	—	—	59.20
Dec	59.90	60.10	59.30	59.50
Jan	60.05	—	—	59.95
March	60.35	60.50	59.75	60.02
May	60.65	60.70	60.15	60.55
July	60.90	60.80	60.35	60.80
Sept	61.20	61.20	60.75	61.05
Dec	61.80	61.70	61.20	61.65
Jan	61.90	—	—	61.75

COTTON 50,000 lb, cents/lb

	Close	High	Low	Prev
Oct	46.44	—	—	46.10
Dec	47.07	47.15	46.00	46.50
March	47.55	47.65	46.56	47.05
May	48.18	48.10	47.50	47.45
July	48.35	48.60	47.45	47.90
Oct	49.20	49.30	49.20	49.10
Dec	49.57	49.80	49.10	49.70
March	50.35	—	—	49.90

CRUDE OIL (LIGHT) 42,000 US gallons, $/barrel

	Close	High	Low	Prev
Nov	15.40	15.43	15.16	15.16
Dec	15.60	15.67	15.38	15.35
Jan	15.56	15.58	15.33	15.26
Feb	15.56	15.55	15.25	15.21
March	15.48	15.50	15.23	15.19
April	15.43	15.43	15.30	15.19
May	15.45	15.46	15.24	15.19
June	15.40	15.40	15.40	15.19
July	15.40	15.40	15.20	15.19

GOLD 100 troy oz, $/troy oz

	Close	High	Low	Prev
Oct	437.2	437.5	427.0	425.2
Nov	439.3	—	—	427.4
Dec	441.1	443.0	431.8	429.2
Feb	444.8	447.0	435.0	432.8
April	448.2	450.0	439.5	436.1
June	452.0	453.0	442.5	439.6
August	455.7	456.7	450.0	443.4
Oct	459.6	460.0	455.5	447.2
Dec	463.7	466.0	457.5	451.2
Feb	468.3	469.8	463.8	455.7
April	473.0	466.5	466.0	460.3
June	477.8	—	—	465.0
August	482.8	—	—	471.9

HEATING OIL 42,000 US gallons, cents/US gallons

	Latest	High	Low	Prev
Nov	43.80	43.80	43.15	43.11
Dec	45.25	45.25	44.80	44.53
Jan	46.25	46.25	45.80	45.55
Feb	46.75	46.80	46.15	46.05
March	44.70	44.70	43.90	43.60
April	43.05	43.05	42.30	41.90
May	41.85	41.85	41.30	40.75
June	41.00	41.00	40.80	40.30

ORANGE JUICE 15,000 lb, cents/lb

	Close	High	Low	Prev
Nov	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]

PLATINUM 50 troy oz, $/troy oz

	Close	High	Low	Prev
Oct	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]
April	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]

SILVER 5,000 troy oz, cents/troy oz

	Close	High	Low	Prev
Oct	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]

SUGAR WORLD "11" 112,000 lb, cents/lb

	Close	High	Low	Prev
Jan	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]

CHICAGO

LIVE CATTLE 40,000 lb, cents/lb

	Close	High	Low	Prev
Oct	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]
April	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]
August	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]

LIVE HOGS 30,000 lb, cents/lb

	Close	High	Low	Prev
Oct	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]
April	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
August	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]

MAIZE 5,000 bu min, cents/56-lb bushel

	Close	High	Low	Prev
Dec	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]

PORK BELLIES 38,000 lb, cents/lb

	Close	High	Low	Prev
Feb	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
August	[illegible]	[illegible]	[illegible]	[illegible]

SOYABEANS 5,000 bu min, cents/60-lb bushel

	Close	High	Low	Prev
Nov	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
August	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]

SOYABEAN MEAL 100 tons, $/ton

	Close	High	Low	Prev
Oct	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
August	156.0	156.0	154.5	156.0
Sept	155.0	155.0	153.5	153.5

SOYABEAN OIL 60,000 lb, cents/lb

	Close	High	Low	Prev
Oct	14.11	14.57	14.10	14.44
Dec	14.71	15.22	14.65	15.16
Jan	14.81	15.35	14.80	15.30
March	15.15	15.60	15.15	15.55
May	15.40	15.80	15.35	15.75
July	15.50	15.90	15.50	15.85
August	15.46	16.00	15.46	15.75
Sept	15.56	15.90	15.56	15.77
Oct	15.41	16.00	15.41	16.00

WHEAT 5,000 bu min, cents/60-lb bushel

	Close	High	Low	Prev
Dec	273.6	274.4	268.4	269.4
March	266.4	267.4	262.0	263.2
May	251.4	254.0	248.4	249.2
July	242.2	244.0	239.4	240.4
Sept	243.0	—	—	241.4
Dec	253.0	256.0	253.0	252.0

SPOT PRICES—Chicago loose lard 16.00 (same) cents per pound. Handy and Harman silver bullion 567.0 (557.0) cents per troy ounce.

POTATOES

Selling on the opening found little buying support and in quiet morning trade prices drifted to the £171 support level before recovering £1 by lunch. Afternoon trade opened easier, and as support levels gave way stop-loss selling added to the pressure. The closing tone was weak, reports Coley and Harper.

Month	Yesterdays close	Previous close	Business done
	£ per tonne		
Nov	108.80	110.50	110.80-110.00
Feb	119.50	121.50	
Apr	169.00	174.50	175.80-169.80
May	186.00	190.50	—
Nov	85.00	87.50	—

Sales: 790 (840) lots of 40 tonnes.

OIL

Substantial position taking by a couple of major traders mainly in November Brent led to steadily rising prices through most of the day although overall trading volume remained modest. In the petroleum products markets gasoline, gas oil and fuel oil were firmer in thin conditions. Naptha weakened on over-supply—*Petroleum Argus, London.*

CRUDE OIL—FOB ($ per barrel)—Oct.	Latest	Change + or —
Arab Light	—	—
Arab Heavy	—	—
Dubai	13.80-13.90*	+0.25
Brent Blend	14.05-14.15	+0.15
W.T.I. (1pm est)	15.25-15.35*	+0.40
Forcados (Nigeria)	—	—
Urals (cif NWE)	—	—

PRODUCTS—North West Europe Prompt delivery cif ($ per tonne)		
Premium gasoline	163-164	+5
Gas Oil	121-120	+2.5
Heavy fuel oil	74-76	+1
Naphtha	115-117	—3

*November.

GAS OIL FUTURES

Month	Yest'rdy's close US $ per tonne	+ or —	Business Done
Oct	123.50	+1.25	125.50-23.50
Nov	129.75	+1.25	131.50-29.25
Dec	134.00	+1.00	136.25-33.75
Jan	138.00	+2.25	138.00-37.00
Feb	139.50	+2.50	139.50
Mar	134.00	+5.00	134.00
Apr	130.00	+5.50	—

Turnover: 3,660 (1,635) lots of 100 tonnes.

SUGAR

LONDON DAILY PRICE—Raw sugar $118.50 (£82.50), down $4.00 (down $2.00) a tonne for October-November delivery. White sugar $170.50, down $4.50.

No. 6 Contract	Yest'rdy's close	Previous close	Business done
	$ per tonne		
Dec.	121.8-122.0	121.0-123.8	122.0-117.6
Mar.	136.2-155.4	155.4-155.8	157.8-128.8
May.	141.9-141.2	141.8-142.0	157.4
Aug.	114.0-146.4	146.8-146.2	146.8-141.4
Oct	156.8-159.4	—	—
Dec.	155.2-157.0	155.4-157.4	—

Sales: 3,384 (1,562) lots of 50 tonnes. Tate & Lyle delivery price for granulated basis sugar was £183.50 (£185.50) a tonne for export.

International Sugar Agreement—(US cents per pound fob and stowed Caribbean ports). Prices for October 1: Daily price 4.75 (4.81); 15-day average 4.73 (4.74).

PARIS—(FFr per tonne): Dec 1106/1115, March 1136/1142, May 1175/1185, Aug 1215/1230, Oct 1240/1250, Dec 1270/1280.

FREIGHT FUTURES

The market was dull and featureless, reports Clarkson Wolff.

	Close	High/Low	Prev.
Dry Cargo			
Oct.	792/795	795/785	785/786
Jan.	796/799	800/795	795/797
April	840/850	840/838	836/840
July	746/755	—	745/755
Oct.	850/860	860	830/845
Jan.	870/880	—	870/875
Apr.	990/970	—	940/970
July	840/850	—	890/850
BFI.	796.5	—	794.5

Turnover: 115 (421).

	Close	High/Low	Prev.
Tankers			
Oct.	985/965	950	920/960
Nov.	950/1010	1000	1000/1100
Dec.	900/985	975	1100
Mar.	950/1000	—	950/1000
June	960/1000	—	1000/1050
BTI.	951	—	984.5

Turnover: 16 (15).

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Sterling falls to record low

STERLING FELL to its lowest ever level in currency markets yesterday despite further intervention by the Bank of England and the West German Bundesbank. Once again it was primarily the mood of the market rather than any specific factor that brought about renewed selling. Sterling's chances of maintaining some sort of stability effectively vanished during the afternoon when the dollar came under selling pressure.

Traders and speculators were disappointed by the lack of agreement at the G5 meeting in Washington and were aware of the growing tension between US and West German authorities over the problem of trade deficits and economic expansion.

Sterling's exchange rate index fell to a record low of 68.1 down from 68.7 at the opening and 68.9 on Wednesday. Against the D-Mark it finished at an all-time low of DM 2.8750 from DM 2.92. It fell to Y220.50 from Y222.75 against the yen and SFr 2.33 from SFr 2.37. Against the French franc it slipped to FFr 9.4225 compared with FFr 9.5650.

The pound was also lower against the dollar at $1.4335 from £1.4450. The dollar was depressed by the difference of opinion between US and West German authorities with the latter resisting pressure to cut interest rates while US authorities were increasingly keen to see a reduction in the US trade deficit if for no other reason than to fend off growing support for the protectionist lobby.

Intervention by the Bundesbank to buy dollars failed to prevent the US unit from losing ground to flirt once again with the DM 2.00 level. It closed at DM 2.0060, having touched a low of DM 2.0035. Wednesday's close was DM 2.0215. Elsewhere, it finished at Y153.85 from Y154.15 and SFr 1.6260 from SFr 1.6410. It was also lower in terms of the French franc at FFr 6.5725 compared with FFr 6.62. On Bank of England figures, the dollar's exchange rate index fell from 110.1 to 109.8.

D-MARK—Trading range against the dollar in 1986 is 2.4710 to 1.9990. September average 2.0486. Exchange rate index 141.5 against 131.6 six months ago.

The D-Mark was firmer against the dollar and sterling in Frankfurt yesterday. The Bundesbank was active buying dollars and sterling but this failed to reverse a bearish trend surrounding both currencies. The dollar suffered from a return in the market's attention to economic data which so far this week has failed to change previous conviction that the US economy was generally weak. Sterling suffered a similar lack of confidence and fell to a record low against the D-Mark. Early in the day the dollar had been fixed at DM 2.0210 from DM 2.0275 with no intervention by the Bundesbank at that time. The dollar closed at DM 2.0055 from DM 2.0245.

JAPANESE YEN—Trading range against the dollar in 1986 is 202.70 to 152.35. September average 154.67. Exchange rate index 216.5 against 195.4 six months ago.

The yen showed little overall change in Tokyo. Trading was confined to a narrow range as dealers tried to assess the implications of comments coming out of the IMF meeting in Washington. The dollar closed at Y154.35 against Y153.90 in New York and Y154.25 on Wednesday. Comments by Mr Satoshi Summita, Governor of the Bank of Japan, that Japan should pay more attention to the domestic side of its economy may have contributed to the dollar's firmer trend towards the close because local traders interpreted these comments as hinting towards a cut in the Japanese discount rate.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu October 2	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	43.1139	43.2691	+0.36	+0.89	±1.5368
Danish Krone	7.81701	7.87696	+0.77	+1.30	±1.6403
German D-Mark	2.11083	2.08654	−1.15	−0.62	±1.1127
French Franc	6.87316	6.83514	−0.55	−0.03	±1.3659
Dutch Guilder	2.37833	2.35751	−0.88	−0.35	±1.5059
Irish Punt	0.764976	0.761832	−0.41	+0.12	±1.6683
Italian Lira	1476.95	1443.68	−2.25	−2.00	±4.0734

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Oct 2	Latest	Previous Close
£ Spot	1.4330-1.4340	1.4455-1.4465
1 month	0.48-0.46 pm	0.58-0.55 pm
3 months	1.52-1.48 pm	1.73-1.70 pm
12 months	5.85-5.75 pm	6.15-6.00 pm

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

		Oct. 2	Previous
8.30	am	68.7	68.8
9.00	am	68.5	69.0
10.00	am	68.6	68.9
11.00	am	68.5	68.9
Noon		68.4	68.9
1.00	pm	68.4	68.9
2.00	pm	68.3	68.9
3.00	pm	68.1	68.9
4.00	pm	68.1	68.9

CURRENCY RATES

Oct. 2	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.84313	0.721148
U.S. Dollar	6	1.2112	1.03304
Canadian $	8.63	*	1.43535
Austrian Sch.	4	17.2996	14.6847
Belgian Franc	8	50.7510	43.2691
Danish Kroner	7	9.25085	7.87696
Deutsche Mark	3½	2.4479	2.08654
Neth. Guilder	4½	2.76526	2.35751
French Franc	9½	8.0154	6.83514
Italian Lira	12	N/A	1443.68
Japanese Yen	3½	186.47	159.450
Norway Krone	8	8.92805	7.61354
Spanish Peseta	—	161.597	137.653
Swedish Krona	8	8.36482	7.12801
Swiss Franc	4	1.98764	1.69968
Greek Drach.	20½	163.639	139.792
Irish Punt	—	N/A	0.761832

* C$/SDR rate for Oct. 1; N/A

CURRENCY MOVEMENTS

October 2	Bank of England Index	Morgan Guaranty Changes %
Sterling	68.1	−25.9
U.S. Dollar	109.8	+1.7
Canadian Dollar	77.0	−13.0
Austrian Schilling	132.5	+8.8
Belgian Franc	97.2	−5.7
Danish Kroner	89.4	+1.8

POUND SPOT—FORWARD AGAINST THE POUND

Oct. 2	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4300-1.4450	1.4330-1.4340	0.57-0.54c pm	4.65	1.77-1.72 pm	4.87
Canada	1.9869-1.9988	1.9875-1.9885	0.42-0.33c pm	2.26	1.26-1.11 pm	2.38
Netherlands	3.24½-3.29¾	3.24½-3.25½	1⅝-1¼c pm	5.31	4⅝-4¼ pm	5.54
Belgium	59.60-60.44	59.60-59.70	20-15c pm	3.52	54-45 pm	3.32
Denmark	10.85-10.99¾	10.85-10.86	2-⅞ ore pm	1.59	5⅛-3¾ pm	1.68
Ireland	1.0520-1.0640	1.0545-1.0555	0.11pm-0.03pdis	0.45	par-0.25 dis	−0.47
W. Germany	2.87-2.92	2.87-2.88	1⅝-1⅜pf pm	6.26	4⅝-4¼pm	6.17
Portugal	209.58-212.45	209.58-211.16	60-125c dis	−5.29	210-370 dis	−5.52
Spain	189.94-192.10	189.94-190.22	25-70c dis	−3.00	55-125 dis	−1.89
Italy	1986¼-2020	1990½-1991½	Par-4 lire dis	−1.21	par-6 dis	−0.60
Norway	10.52-10.64½	10.52-10.53	2¾-3⅝ore dis	−3.63	8¾-9⅞ dis	−3.54
France	9.41½-9.55	9.41¼-9.42¼	2¼-1⅝c pm	2.47	6½-5½ pm	2.55
Sweden	9.83½-9.94½	9.84¼-9.85¼	1⅞-1⅛ ore pm	1.83	4⅝-3⅝ pm	1.68
Japan	220-222¼	220-221	1¼-1y pm	6.12	3⅝-3⅛ pm	5.90
Austria	20.29-20.51	20.29-20.35	9⅝-8¼gro pm	5.28	25⅝-25½ pm	5.03
Switzerland	2.32½-2.37	2.32½-2.33½	1½-1¼c pm	7.08	4-3¾ pm	6.65

Belgian rate is for convertible francs. Financial franc 61.15-61.25. Six-month forward dollar 3.49-3.44c pm. 12-month 6.50-6.40c pm.

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

Oct. 2	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4300-1.4450	1.4330-1.4340	0.57-0.54c pm	4.65	1.77-1.72c pm	4.87
Ireland†	1.3520-1.3636	1.3625-1.3635	0.55-0.30c pm	3.77	1.80-1.20cpm	4.43
Canada	1.3825-1.3888	1.3870-1.3880	0.26-0.29c dis	−2.38	0.85-0.90c dis	−2.52
Netherlands	2.2645-2.2870	2.2670-2.2680	0.14-0.11c pm	0.66	0.41-0.36 pm	0.67
Belgium	41.55-41.98	41.55-41.65	3-5c dis	−1.14	13-17dis	−1.43
Denmark	7.56-7.64	7.57-7.57½	1.65-2.25ore dis	−3.06	5.50-6.25dis	−3.08
W. Germany	2.0035-2.0250	2.0055-2.0065	0.27-0.24pf pm	1.51	0.75-0.70pm	1.43
Portugal	145¼-147	145¾-146¼	100-140c dis	−9.81	325-425c dis	−10.22
Spain	132.50-133.45	132.55-132.65	60-90c dis	−6.75	190-230 dis	−6.30
Italy	1387-1400½	1388¾-1389¾	5-7½lire dis	−5.36	16½-20dis	−5.22
Norway	7.34-7.39¾	7.34-7.34½	4.90-5.30ore dis	−8.30	15.15-15.55dis	−8.33
France	6.56½-6.65¾	6.57-6.57½	1.15-1.35c dis	−2.26	3.50-3.90dis	−2.23
Sweden	6.86¼-6.90¾	6.86¾-6.87¼	1.50-1.70ore dis	−2.78	5.10-5.50dis	−3.07
Japan	153.70-154.60	153.80-153.90	0.18-0.13y pm	1.21	0.46-0.41pm	1.13
Austria	14.10¼-14.24	14.11-14.11½	1-3gro pm	0.58	¼pm-2¼dis	−0.07
Switzerland	1.6240-1.6440	1.6255-1.6265	0.33-0.28c pm	2.23	0.82-0.77pm	1.94

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 42.00-42.10.

EURO-CURRENCY INTEREST RATES

Oct.2	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	9⅝-9⅞	9¾-10	10½-10⅝	10¹⁵⁄₁₆-11⅟₁₆	11-11⅛	11⅛-11¼
US Dollar	5⅞-6	5¹⁵⁄₁₆-6⅟₁₆	5¹⁵⁄₁₆-6⅟₁₆	5¹⁵⁄₁₆-6⅟₁₆	5¹⁵⁄₁₆-6⅟₁₆	6⅟₁₆-6³⁄₁₆
Can. Dollar	8½-8⅝	7⅞-8⅛	8⅟₁₆-8³⁄₁₆	8¼-8½	8½-8¾	8¹¹⁄₁₆-8¹⁵⁄₁₆
D. Guilder	5⅜-5⅝	5⅜-5⅝	5⁵⁄₁₆-5⁷⁄₁₆	5¼-5⅜	5¼-5⅜	5¼-5⅜
Sw. Franc	1¼-1½	1⅞-2⅛	3¾-3⅞	4-4⅛	4⅛-4¼	4⅛-4¼
Deutschemark	4³⁄₁₆-4⁵⁄₁₆	4⅛-4½	4³⁄₁₆-4⁵⁄₁₆	4½-4⅝	4³⁄₁₆-4⁵⁄₁₆	4³⁄₁₆-4⁵⁄₁₆
Fr. Franc	7¼-8	8-8½	8¼-8⅝	8¼-8⅝	8¼-8½	8-8¼

FINANCIAL FUTURES

Gilts react to weak pound

PRICES FELL on the London International Financial Futures exchange, as sterling denominated contracts reacted to the further weakness of the pound on the foreign exchanges, and dollar contracts eased on profit taking and squaring of positions ahead of today's US unemployment data. Sterling's fall to a record low of 68.1 on the Bank of England's exchange rate index renewed speculation that the authorities will be forced to increase UK interest rates, in spite of reluctance to move ahead of next week's Conservative Party conference. A fall of $372m in Britain's official reserves last month was towards the top of most expectations, but within the general level of forecasts. Long-term gilts for December opened at 110-03 and touched a peak of 110-18. Sterling's decline led to a sharp rise of interest rates on the London money market, and losses of over £1 in long term gilts on the cash market.

December gilts fell to a low of 109-06 and closed at 109-20, compared with 110-31 previously.

Three-month sterling deposits were influenced by similar factors. The December contact opened weaker at 89.10, but this proved to be the peak of the day. It fell to a low of 88.68, and closed at 88.87, against 89.20 on Wednesday.

There were no new factors to move dollar denominated contracts, apart from an underlying weakness of the US currency on the foreign exchanges. Last night's announcement of weekly US M1 money supply growth was expected to show a roughly flat figure, but traders were nervous ahead of today's US unemployment figures. US Treasury bonds for December delivery opened lower at 96-09, and closed at 96-02, only slightlly above the day's low of 96-00, compared with the previous finish of 96-21, in reaction to rumours that the rise in US non-farm employment will be larger than earlier forecasts.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last Dec.	Mar.	June	Sept.	Puts—Last Dec	Mar.	June	Sept.
106	4.40	5.49	—	—	1.00	2.15	—	—
108	3.19	4.37	—	—	1.43	3.03	—	—
110	2.16	3.37	—	—	2.40	4.03	—	—
112	1.28	2.47	—	—	3.52	5.13	—	—
114	0.56	2.03	—	—	5.16	6.33	—	—
116	0.32	1.32	—	—	6.56	7.62	—	—
118	0.17	1.05	—	—	8.41	9.35	—	—
120	0.09	0.48	—	—	10.33	11.14	—	—

Estimated volume total, Calls 919 Puts 202
Previous day's open int, Calls 1,9003 Puts 5,640

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last Dec.	Mar.	June	Sept	Puts—Last Dec.	Mar	June	Sept
88	8.15	8.33	—	—	0.11	1.23	—	—
90	6.29	7.06	—	—	0.25	1.60	—	—
92	4.54	5.52	—	—	0.50	2.42	—	—
94	3.29	4.44	—	—	1.25	3.34	—	—
96	2.22	3.46	—	—	2.18	4.36	—	—
98	1.31	2.58	—	—	3.27	5.48	—	—
100	0.57	2.14	—	—	4.53	7.04	—	—
102	0.32	1.45	—	—	6.28	8.33	—	—

Estimated volume total, Calls 1, Puts 0
Previous day's open int, Calls 608 Puts 833

MONEY MARKETS

London rates up as sterling slides

INTEREST RATES rose on the London money market yesterday afternoon as sterling plunged to a record low on the Bank of England's exchange rate index, and to an all time low against the D-Mark. Intervention by the Bank of England and West German Bundesbank to support the pound failed to reverse the slide, and left dealers in the money market increasingly nervous about the possibility of higher UK bank base rates. Three-month interbank rose to 10¹⁵⁄₁₆-11⅟₁₆ per cent from 10¹¹⁄₁₆-10¹³⁄₁₆ per cent as speculation increased about an increase of up to 2 per cent to 12 per cent in base lending rates.

UK clearing bank base lending rate 10 per cent since May 22

Dealers were particularly nervous about the prospects for sterling ahead of next Monday's meeting of ministers from Opec, and Tuesday's mid-September money supply figures, which are expected to show a sharp rise.

The underlying fall of $372m in Britain's official reserves in September, reflected the extent of the Bank of England's support for sterling, but was within the general range of forecasts.

The Bank of England initially forecast a money market shortage of £800m, but this was revised to £850m at noon. Total help on the day was £787m.

An early round of assistance was offered, and at that time the authorities bought £104m bills outright, by way of £1m bank bills in band 2 at 9¹³⁄₁₆ per cent; £26m bank bills in band 3 at 9¾ per cent; £14m local authority bills in band 4 at 9¹¹⁄₁₆ per cent; and £63m bank bills in band 4 at 9¹¹⁄₁₆ per cent.

Before lunch another £461m were purchased outright, though £5m bank bills in band 1 at 9⅞ per cent; £150m bank bills in band 2 at 9¹³⁄₁₆ per cent; £30m bank bills in band 3 at 9¾ per cent; £86m local authority bills in band 4 at 9¹¹⁄₁₆ per cent; and £190m bank bills in band 4 at 9¹¹⁄₁₆ per cent.

In the afternoon £222m bills were bought, by way of £97m bank bills in band 1 at 9⅞ per cent, £109m bank bills in band 2 at 9¹³⁄₁₆ per cent; £7m local auothrity bills in band 4 at 9¹¹⁄₁₆ per cent; and £9m bank bills in band 4 at 9¹¹⁄₁₆ per cent.

Bills maturing in official hands, repayment of late assistance and a take up of Treasury bills drained £200m, with Exchequer transactions absorbing £470m; a rise in the note circulation of £30m, and bank balances below target £110m.

$WORLD VALUE OF THE DOLLAR

BANK OF AMERICA NT & SA, LONDON DEALING ROOM.

The table below gives the rates of exchange for the U.S. dollar against various currencies as of Wednesday, October 1, 1986. The exchange rates listed are middle rates between buying and selling rates as quoted between banks, unless otherwise indicated. All currencies are quoted in foreign currency units per one U.S. dollar except in certain specified areas. All rates quoted are indicative. They are not based on, and are not intended to be used as a basis for, particular transactions.

Bank of America NT & SA does not undertake to trade in all listed foreign currencies, and neither Bank of America NT & SA nor the Financial Times assume responsibility for errors.

Bank of America, Economics Dept., London
Eurodollar Libor as of October 1, at 11.00 a.m.
3 months: 6⅛ 6 months: 6⅛

ECU=$US1.03095 SDR1=$US1.21134
Sibor as of October 1, at 11.00 a.m.
3 months: 6⅛ 6 months: 6⅛

COUNTRY	CURRENCY	VALUE OF DOLLAR	COUNTRY	CURRENCY	VALUE OF DOLLAR	COUNTRY	CURRENCY	VALUE OF DOLLAR
Afghanistan	Afghani (o)	50.60	Greece	Drachma	135.40	Papua New Guinea	Kina	0.9709
Albania	Lek	6.9896	Greenland	Danish Krone	7.655	Paraguay	Guarani (o.c.) (7)	320.00

LONDON SHARE SERVICE

BRITISH FUNDS

1986 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
		"Shorts" (Lives up to Five Years)				
99	94⅞	Exch. 2½pc 1986	99	.....	2.52	8.44
102	100	Exch. 13¼pc 1987	100	–	13.18	10.87
100¾	97	Treas. 10½pcCv '87	99⅝	–	10.29	11.06
98	92	Exch 2½pc 1987	97⅝	–	2.55	8.01
101⅜	97½	Exch. 10½pc 1987	99	–	10.52	11.19
98¼	93⅝	Funding 6½pc 85-87	98¼	.....	6.62	9.81
101¼	96	Treas. 10pc 1987	99	+	10.08	11.15
97	90¾	Treas. 3pc 1987	96¼	.....	3.12	8.21
104⅝	99¾	Treas. 12pc 1987	100¾	–	11.91	11.30
99¼	92	Treas. 7¾pc 1985-88‡‡	96¼	.....	8.01	10.39
104	96¼	Exch 10½pc '88	98	–	10.63	11.38
102¾	95¼	Treas. 9½pc Cv '88	97	–	9.97	11.23
94¼	86¼	Transport 3pc '78-88	90¼	–	3.30	8.66
102⅜	93	Treas. 9½pc '88	96¼	–	9.82	11.34
107	98	Treas. 11½pc 1989	100	–	11.50	11.45
103⅝	93¼	Treas. 9½pc Cnv 1989	95⅞	–	9.91	11.43
92¼	82	Treas. 3pc 1989	87¼	–	3.44	8.54
105	95	Treas. 10½pc 1989	97	–	10.73	11.43
104	94¼	Exch. 10pc 1989	96	–	10.36	11.43
107	97	Exch 11pc 1989	99	–	11.10	11.38
93	84½	Treas. 5pc 1986-89	88½	–	5.65	9.46
110	94⅝	Exch 10¼pcCv '89	100½	–1	10.10	9.65
114	103	Treas. 13pc 1990‡‡	104	–	12.49	11.42
108¼	97¼	Exch 11pc 1990‡‡	98¼	–	11.14	11.41
113⅝	101	Exch. 12½pc 1990	103¼	–	12.12	11.40
89⅝	79⅝	Treas. 3pc 1990	83	.....	3.60	8.52
100	89¼	Treas. 8¼pc 1987-90‡‡	93¼	–	8.82	11.32

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Cont.

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Cont.

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY & STORES—Cont.

ELECTRICALS

ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

INDUSTRIALS—Continued

1986 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
78½	45	Mitchell Cotts	49½	−3½	1.5	♦	4.3	♦
124	81	Molins & Crane 10p	120	......	2.7	2.9	3.2	14.7
317	210	Morgan Crucible	268	......	18.5	1.5	4.7	17.0
23½	15½	Morris (W) F.A. 20p	20	+½	—	—	—	—
152	65	Myson Grp 10p	139	−1	†2.63	2.6	2.7	17.9
365	230	NMW Computers	265	−5	16.0	3.0	3.2	15.1
66	27	Nash Inds	63	+5	10.5	—	1.1	—
27½	15½	Neill & Spencer 10p	17½	......	—	—	—	—
39	28	Newman Inds 10p	32	......	10.8	1.5	3.5	(24.5)
134	65	Noble & Lund 10p	112	......	0.7	4.3	0.9	36.9
65	39	Nolton	49	−1	†0.95	7.0	2.7	7.0
150	96	Norank Systems 5p	148	−2	1.5	—	1.4	18.0
286	187	Norcros	221	......	9.3	2.2	5.9	10.6
180	49	Nu-Swift 5p	153	......	3.5	2.1	3.2	20.6
£355	£228	OCE 9pc Cnv 1987-92	£351½	+5	Q9%	—	2.6	—
118	80	Oakwood Grp	85	......	3.0	1.3	‡	11.8
250	185	Office & Elect	188	......	8.5	2.9	6.5	7.5
183	70	Oldacre 20p	176	......	5.0	♦	4.1	♦
34	26	Omnitech 1p	26	−1	—	—	—	—
36	22	Optometrics $0.01	25	......	—	—	—	—
890	500	Oriflame £1	860	......	†24.5	2.1	4.0	16.7
10	5	Ownestone 12½c	9	......	Q3.29c	1.9	11.1	4.7
142	85	PCT Grp 10p	118	......	3.2	—	5.6	—
£20½	£13¼	PLM 'B' Sk 25	£18	......	Q23.2%	0.3	3.2	—
195	114	PSM Intl	190	......	5.5	2.1	4.1	14.5
255	167	Pacer Systems $0.01	170	......	[illegible]	3.4	1.6	18.9
78	53	Pacific Sales 10p	53	......	3.0	♦	8.0	♦
445	246	Parker Knoll 'A'	402	......	12.0	♦	4.2	♦
222	83	Parkfield Group 2p	175	−3	3.6	4.2	2.9	11.1
53	17	Pavion Intl	18½	+1½	—	—	—	4.9
£130	£69½	Do 11pc CvLn 99-02	£69½	......	Q11%	—	11.6	—
608	393	Pearson	595	+2	†10.0	2.8	2.6	17.4
30	12	Peck Holdings 5p	30	+½	—	—	—	—
145	88	Peerless	136	......	6.3	1.5	6.5	(12.2)

LEISURE—Continued

1986 High	Low	Stock	Price	+ or −	Div Net	C'vr
395	263	LWT	395	......	†14.4	1.8
187	137	Lee International 10p	167	......	3.8	♦
50	32	Leisure Inv 10p	50	......	—	—
115	98	Leisuretime Int 10p	91	+1	2.3	♦
117	100	Lowndes	105	......	2.63	3.3
98	85	Marcus Dev. 50p	85	......	3.13	3.0
220	125	Media Tech Int 20p	138	−2	2.8	♦
170	130	Medminster 10p	145	......	5.35	2.7
220	130	Miss World 10p	205	......	15.2	3.3
90	62	Nationwide Leisure	69	......	3.75	2.5
17	10	Nimslo Int 20c	11	......	—	—
35¾	23	Owners Abroad 3p	35½	......	1.5	2.3
90	46	Photax (Lon.)	65	......	—	—
34	28	P'dilly Radio NV 5p	28	......	2.0	1.2
73	25½	Pineapple 10p	66	......	—	—
391	280	Pleasurama 5p	316	−2	†7.5	3.6
178	136	Do. 7pcCvCumRedPf	143	......	7%	—
157	94	Prestwich	105	+1	0.35	7.8
43	18	Radio City 'A' NV	34	......	—	—
55	33	Radio Clyde NV	53	......	3.25	0.9
395	322	Really Useful Grp 5p	385	+3	11.25	2.2
64	40	Riley Leisure 10p	40	......	—	—
230	190	Saga Hols. 20p	192	......	4.6	2.6
355	155	Samuelson Grp 20p	158	+3	2.4	6.5
123	73	Sangers Photo 10p	82	−2	2.2	1.5
178	110	Scaure 50p	113	......	4.0	3.5
340	175	Scot. TV 10p	330	......	10.5	3.0
294	114	SeaCo Inc $0.125	190	......	—	—
27	7	SelecTV 10p	20	......	—	—
37	20	Spectrum 5p	27	−1	12.0	4.8
143	119	Stanley Leisure	143	+5	3.25	2.8
47	31	TSW 5p	47	+1	1.7	2.4
279	144	TVS N/Vtg 10p	235	......	10.0	2.5
108	91	Television Serv 50p	91	−2	2.0	2.9

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

INSURANCES

LEISURE

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

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TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Cont.

Finance, Land, etc

FINANCE, LAND—Cont.

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

MINES—Continued

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

NOTES

[illegible]

q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Figures based on prospectus or official estimates for 1984. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or −
Albany Inv 20p	58xd	......
Craig & Rose £1	£13½	......
Finlay Pkg. 5p	47xd	......
Hall (Jos) 25p	620xd	......
IoM Stm. £1	75	......
IRISH		
Fund 11¼% 1988	£987⁄8xd	−¼
Nat. 9¾% 84/89	£94¼	−⅛
Fin. 13% 97/02	£99	−2¼
Arnotts	265	......
CPI Hldgs	43	......
Carroll Inds	118	−3
Dublin Gas	30	......
Hall (R. & H.)	88	......
Heiton Hldgs	29	......
Irish Ropes	95xd	+2½
Unidare	238	−1

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LONDON STOCK EXCHANGE

Account Dealing Dates

Option *First Dealings	Declarations	Last Dealings	Account Day
Sept 15	Sept 25	Sept 26	Oct 6
Sept 29	Oct 9	Oct 10	Oct 20
Oct 11	Oct 23	Oct 24	Nov 3

*"New-time" dealings may take place from 9.30 am two business days earlier.

Sterling nervousness makes for uncertainty in Gilts and longer-dated stocks fall £1¼

London's securities markets had a nervous session against a backcloth of continued ucertainty over the outlook for sterling. Additionally unsettling were hints of severe losses by some gilt-edged traders in the past month, joined now by worries that some international houses may have suffered in this week's heavy shakeout in the Tokyo stock market.

Government bonds rallied only tentatively from early falls to show net losses of 1¼ points. The market looked steady at the close but "should have been lower," commented one trader, pointing to the pound's dip against the German mark. At mid-session, bonds were 1½ off in nervous trading. The FT Government Securities index showed a fall of 0.53 to 82.30.

The lack of enthusiasm in gilts caught up with equities in the early trade yesterday. Weakness in Japanese stocks, reflecting the setback in their home market, at first held back the internationals. At mid-session, when gilts were weak, the FT-SE 100 index was 6 points off. But arbitrage demand for British Petroleum and the other major oil stocks, together with renewed interest in the major exporter issues, enabled the stock market to recover much of its early loss. Late dealings, however, saw UK stocks shading lower in response to a poor start in the New York market. The FT-SE 100 Index shed 5.2 to 1573.1, and the FT Ordinary share index ended 5.7 points down at 1246.0.

A US house was a major buyer of Beecham, although the price turned back at the close. A further major presentation to UK institutional investors is planned for next week. Glaxo, which have been strong in New York, moved up smartly, but were also undermined at the close by the softness in New York. Jaguar, another strong favourite with transatlantic investors, moved firmly against the trend of the market. Once again, a modest fall in Grand Metropolitan stock brought in some solid investment demand.

Lloyds easier

Confirmation of the acquisition of Continental Bank of Canada prompted a late mark-down in Lloyds which closed the session 7 easier on balance at 407p. Standard Chartered, meanwhile, improved a few pence to 697p following news that Lloyds had received approval from the US Federal Reserve System to increase its stake in Standard to 29.9 per cent from the current level of just under 5 per cent. Midland lacked support and shed 5 at 534p, while Barclays cheapened 3 to 464p and NatWest eased a couple of pence to 512p. Brown Shipley, in which Kredietbank S. A. Luxembourgeoise holds a 25.5 per cent stake, revived among merchant banks with a gain of 7 to 510p. Morgan Grenfell, however, eased a few pence to 400p; the interim results are scheduled for Monday.

Investors showed renewed interest in selected Composite Insurances. Sun Alliance added 13 to 657p.

Two newcomers to the Unlisted Securties Market met with success, despite the surrounding drab conditions. Liverpool-based optician, Miller and Santhouse, placed recently by Capel-Cure-Myers at 105p, began life at 133p and moved quickly higher to 150p before easing to close at 143p. Great Southern, a large UK undertaker and crematoria operator, fluctuated narrowly between 147p and 145p prior to settling at 146p compared with the Hill Samuel placing price of 135p.

Building issues showed a majority of falls with the sector again extremely sensitive to the possibility of higher bank base-rates. Redland remained a depressed market and dipped 5 more to 381p on further consideration of the acquisition of Genstar Stone for £220m and £181m rights issue. Other leading stocks to lose ground included Blue Circle, 5 down at 558p, after 556p, and BPB which closed a net 3 easier at 443p, after 440p. John Laing were 4 cheaper at 353p.

Brickmaker Ibstock Johnsen hardened a couple of pence to 174p following the better-than-expected interim profits and dividend increase. Erith put on a like amount to 108p in response to almost doubled mid-term earnings but news of the proposed rights issue to raise some £7.5m offset the excellent preliminary results and left Bellway 4 cheaper at 162p.

Helical Bar were an outstanding performer and touched a record 293p prior to closing a further 5 up at 288p amid talk of an imminent announcement regarding an injection of assets.

Among Chemicals Rentokil were persistently sold and retreated to close 5 lower at 138p while Thurgar Bardex held at 58p ex-rights with the new nil paid were quoted at 7p premium.

Empire pleases

Empire Stores, once regarded as the "cinderella" of independent Mail-order houses, touched 196p before settling 4 up on balance at 190p after announcing interim profits at the top-end of market estimates. Freemans, a shade firmer initially in sympathy, eased back to 428p for a net loss of 4. Brokers Wood Mackenzie, while bullish of Empire in the short-term, prefer the latter as a longer-term investment. Etam dipped 8 to 242p in the wake of the uninspiring half-timer, but S. R. Gent, down to 46p at one stage following the expected lapse into losses at the full-year stage, reverted to 52p on recovery hopes.

The recent rally among leading Retailers ran out of steam. Worries over dearer credit resurfaced and Storehouse fell 13 to 300p, while Woolworths dipped 10 to 605p. Losses of 8 were noted for Combined English, 210p, and Dixons, 336p; the latter losing much of Wednesday's advance which stemmed from the chairman's bullish statement at the annual meeting. Sears, scheduled to announce interim figures next Tuesday, eased 3½ to 110½p, but Blacks Leisure, which halved in value on Wednesday as the bid from Sears lapsed, rallied 1½ to 3½p on hopes that the company may yet escape the clutches of the official receiver.

Racal sustained an above-average fall of 6 to 152p among quietly-dull Electrical leaders. Interest in Plessey waned and the shares drifted a couple of pence lower to 178p, while GEC softened the same amount to 168p. Ealing Electro Optics featured secondary stocks with a decline of 16 to 113p after disappointing first-half profits, while Amstrad gave up 4 to 132p on profit-taking in the wake of the excellent annual results. United Scientific reflected fading takeover hopes with a reaction of 2 to 148p, but Questel added 20 at 205p following revived support in a thin market.

The sale of its steel stockholding interests to privately-owned concern C. Walker & Son for £50m, helped GKN continue the recent recovery. The shares advanced to 263p in the early stages before reverting on profit-taking to the overnight level of 256p. TI closed only a couple of pence dearer at 411p, seemingly unimpressed by the late announcement that the Kuwait Investment Office had increased its stake in the company to 16.3 per cent. Vickers edged forward a penny to 381p, but Hawker eased a couple of pence to 439p; the latter's interim figures are scheduled for October 22. Elsewhere in Engineerings, Booth Industries attracted support and moved up 5 to 98p, while Richardson Westgarth rose 2½ to 49p on takeover hopes.

Speculative interest in Bernard Matthews was whetted by a report of an imminent Canadian deal and, in a thin market, the shares jumped 15 to 245p. Revived bid hopes boosted Iceland Frozen Foods 18 to 597p, although the market was unable to establish a suitor, while Albert Fisher improved 2 further to 187p as broker de Zoete and Bevan upgraded its profits forecast following the acquisition of Florida-based Tavilla group. Dull spots in the sector were rare but included Hillsdown, 5 off at 293p; the group has acquired Beeson, a company engaged in potato merchanting and growing, via a cash and share exchange deal.

Siebe rally

Siebe, having fallen from nearly £9 since the £225m rights issue to finance the proposed acquistition of Robertshaw Controls of the US, rallied 25 to 760p following publicity given to a Kleinwort Grieveson circular. Lawtex touched 70 before closing 10 up on balance at 68p awaiting today's preliminary results, while Lilleshall jumped 10 to 131p in response to better-than-expected first-half profits. Speculative support revived for Bridport Gundry, which closed 15 higher at 213p and Christies International, an old US bid favourite, closed 22 to the good at 268p. Confirmation of the Airbus Industrie/Northwest Airlines Airbus deal helped British Aerospace extend Wednesday's rise of 21, the price reaching 476p before succumbing on profit-taking to close a few pence easier on balance at 458p. H. Young reflected acute disappointment with the results and finished 18 lower at 110p, while NMW Computers ended 5 cheaper at 265p, after 285p, following the interim figures. News of the final dividend omission and slashed preliminary profits left Mitchell Cotts 3½ down at 49½p, after 48½p. Miscellaneous industrial leaders rallied after a dull start. Beecham, in the wake of a major presentation to analysts at the Savoy Hotel, reacted to 406p before recovering on currency considerations to close a couple of pence dearer at 413p. Glaxo firmed 3 to 968p, after 960p.

HTV, up to 230p in immediate response to the increased full-year profits and dividend, were later marked down to 220p for a net decline of 8 on concern over the losses at its Dataday subsidiary.

Major beneficiaries of the £2bn Airbus deal with NorthWest Airlines of the US fared well among Motors, particularly Lucas which closed 13 higher at 511p. Dowty were 4 better at 199p. Jaguar continued to reflect D-Mark/sterling considerations with a fresh improvement of 5 to 528p.

McCorquodale traded in lively fashion again; up to 290p on further reflection of Mr Robert Maxwell's intervention, the shares later gave ground and closed a net 8 lower at 278p—still a few pence above the unwelcome share-exchange bid from Norton Opax, which were unchanged at 136p. Advertising agencies were irregular. Saatchi and Saatchi touched 610p but settled only 15 dearer on balance at 600p. London and Continental Advertising, which stood at 58p on Thursday of last week following the extremely disappointing first-half figures and omitted dividend, rallied 13 more to 108p on the disclosure that MAI now controls just under 15 per cent of the equity. In contrast, Charles Barker cheapened 5 more to 110p; the shares have fallen 30 since the interim results were announced on September 24. Sellers also held sway in Geers Gross, 3 off at 72p, and Michael Peters, 5 down at 133p, but persistent talk of imminent expansion moves lifted WPP 16 to 600p.

Property investors continued to focus attention on smaller or more speculative issues. Gilbert House were a prime candidate and rose 3 more to 20p, a two-day gain of 33 per cent, following a new development. Letts Green Estate, which is owned by the family interest of Gilbert House chairman T. F. Parrett and is currently bidding 15p cash for each GH share, has received an approach that may lead to an alternative offer for Gilbert House shares. Five Oaks Investment were bought and touched 57p before ending 3 up at 56p, but Berkeley and Hay Hill softened ½ to 16¾p, despite doubled interim profits. Elswhere, Daejan put on 8 to 628p, but Bradford slipped 15 to 430p.

Shippings reacted to occasional offering. P & O Deferred, 501p, and British and Commonwealth, 218p, both eased 5. Milford Docks slumped 7 to 36p following the continuing losses.

Substantially lower values in overnight Tokyo prompted a shake-out among Far Eastern-orientated Investment Trusts. Drayton Japan dipped 22 to 893p, while Fleming Japanese closed 19 cheaper at 696p. Smaller-priced counters showed losses ranging to 7, including New Tokyo, 230p, and Crescent Japan, 210p.

BP up again

Oils gave another strong performance on the growing conviction that OPEC ministers will agree to continue their successful agreement on collective output and individual quotas at their meeting in Geneva next Monday.

Renewed American buying and a firm showing by crude oil prices boosted BP 15 to a 1986 high of 691p and lifted Shell a further 10 to 923p. Britoil rose 5 to 128p while gains of 3 were common to Lasmo, 121p and Enterprise, 135p. Ultramar continued to respond to news that New Zealand's Rainbow Corporation and Equiticorp are set to pursue their investment interest in the company and put on a similar amount to 161p.

IC Gas, on the other hand, dropped 10 to 493p following a report that recent persistent buying of the shares—thought to have been on behalf of a single would-be predator—had been carried out by at least five different buyers.

Elsewhere, Conroy Petroleum jumped 5 more to a record 190p reflecting rumours that a drilling report from the company's base-metal find in Ireland will be announced next week. Bryson Oil and Gas were an active market and touched 83p at one point before ending the day only a shade firmer on balance at 79p. ERIC came under persistent selling pressure to close 15 down at 120p with the new nil-paid 10 off at 5p premium.

South African Gold shares drifted throughout the morning and early afternoon as the bullion price moved narrowly around the $426 level but picked up during late inter-office trading when the metal price suddenly raced ahead to close almost $10 up on the day at $432.875. The late surge in gold reflected fears of further US sanctions against the Republic and the possible response by South Africa in the form of restrictions of exports of precious or rare metals. Platinum also performed strongly and traded around $576 in the afternoon compared with the previous day's closing level of $559.5.

Among the leading Golds Vaal Reefs, down ½ during initial dealings, rallied sufficiently to end the day almost a point up on balance at £56¾.

Financials performed similarly to Golds. In the UK-based issues Consolidated Gold Fields recovered strongly from 569p and settled unchanged at 579p while Rio Tinto-Zinc put on 5 to 644p.

Greenwich Resources, a strong market following a successful meeting with company brokers James Capel, made further good progress and rose 6 more to a record 136p, for a two day gain 18.

Australians recorded outstanding gains across the board following the latest impressive performance by overnight domestic markets. Among the Golds Sons of Gwalia jumped 25 to 348p and Poseidon rose 8 to 167p, while the leading "down-under" mining groups showed CRA 15 up at 323p and Western Mining 6 better at 192p.

Traded Options

Although the underlying share price showed little movement, dealers reported considerable Traded Option interest in Grand Metropolitan. 1,735 calls and 249 puts were struck in the stock as operators took fresh positions in the wake of recent stake-building reports. Interest was also displayed in Boots and Hanson Trust, which attracted 1,351 and 1,268 calls respectively. The FT-SE 100 contributed 971 calls and 1,085 puts. Total contracts struck amounted to 19,242.

Traditional Options

- First dealings Sept 22 Oct 6 Oct 20
- Last dealings Oct 3 Oct 17 Oct 31
- Last declaration Dec 18 Jan 8 Jan 22
- For Settlement Dec 29 Jan 19 Feb 2

For rate indications see end of Unit Trust Service

Money was given for the call of Pearl, Dubilier, Readicut International, North Kalgurli, Consolidated Gold Fields, Amstrad, Conroy Petroleum, Brunswick, British Bennol, Guinness Peat, Hongkong and Shanghai Banking, Great Victoria, Premier Oil, BSG International, Burns-Anderson, STC, Common Brothers, Morgan Grenfell, Raine Industries, Peek, Sears and J. E. England. A put was done in Fairline Boats, while a double option was taken out in Amstrad.

FINANCIAL TIMES STOCK INDICES

	Oct. 2	Oct. 1	Sept. 30	Sept. 29	Sept. 26	year ago	1986 High	1986 Low	Since Compilation High	Since Compilation Low
Government Secs	82.30	82.83	82.89	81.75	83.39	84.08	94.51 (18/4)	80.39 (20/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	90.56	90.41	90.18	89.96	90.44	89.75	97.68 (7/7)	86.55 (23/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1,246.0	1,251.7	1,227.0	1,212.6	1,238.4	1,010.9	1,425.9 (3/4)	1,094.3 (14/1)	1,425.9 (3/4/86)	49.4 (26/6/40)
Gold Mines	317.2	321.5	319.0	323.8	328.3	281.7	357.8 (22/9)	185.7 (18/7)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.45	4.43	4.52	4.56	4.46	4.71				
Earnings Yld.%(full)	10.20	10.17	10.37	10.47	10.26	11.54				
P/E Ratio (net) (*)	12.02	12.06	11.83	11.71	11.95	10.73				
Total Bargains (Est)	21,426	22,147	20,720	21,631	21,638	20,792				
Equity Turnover £m.	—	459.22	663.64	552.41	746.28	411.76				
Equity Bargains	—	17,729	18,307	16,903	22,839	18,518				
Shares Traded (ml).	—	213.1	281.4	252.6	348.0	222.8				

S.E. ACTIVITY

Indices	Oct. 1	Sept. 30
Gilt Edged Bargains	145.1	164.4
Equity Bargains	114.9	118.6
Equity Value	928.2	1341.4
5-Day Average		
Gilt Edged Bargains	131.5	130.1
Equity Bargains	121.5	120.7
Equity Value	1192.1	1203.5

♥ Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1251.1	1246.8	1244.1	1246.8	1250.7	1249.7	1250.0	1248.0

Day's High 1252.7. Day's Low 1244.1.

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974 *Nil=11.54.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-246 8026

YESTERDAY'S ACTIVE STOCKS

Above average activity was noted in the following stocks yesterday

Stock	Closing price	Day's change	Stock	Closing price	Day's change
Boots	225	−2	GKN	256	—
Brit. Aerospace	458	−3	ICI	£10⅞	—
BP	688	+12	Marks & Spencer	193	−4
Dixons Group	336	−8	Matthews (B.)	245	+15
Ealing Electro	113	−16	Shell Transport	923	+10
Freemans	428	−4	Trafalgar House	280	—

WEDNESDAY'S ACTIVE STOCKS

Based on bargains recorded in Stock Exchange Official List.

Stock	No. of changes	Wed's close	Day's change	Stock	No. of changes	Wed's close	Day's change
Beecham	22	411	+23	Hanson Trust	12	187	+5
Glaxo	22	965	+35	Quest Automation	12	458	+5
Br. Aerospace	16	461	+21	GKN	11	256	+5
Jaguar	14	523	+17	Shell Trans.	11	913	+7
Boots	13	227	+11	Cable & Wire	10	289	+7
ICI	13	£10⅞	+0¼	Marks & Spencer	10	197	+5

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	0	101	12
Corporations, Dom., and Foreign Bonds	14	10	45
Industrials	288	302	932
Financial & Properties	134	94	348
Oils	29	13	70
Plantations	0	5	9
Mines	60	49	76
Others	116	27	51
Totals	641	601	1,543

NEW HIGHS AND LOWS FOR 1986

NEW HIGHS (54)

AMERICANS (4) Colt Inds., Cons. Freightways, Corporate Data, Texaco; CANADIANS (2) Goliath Gold Mines, Inland Gas; BANKS (1) HK & Shanghai Banking; BUILDINGS (2) Anglia Secure Homes, Helical Bar; CHEMICALS (1) Reabrook Hldgs.; ELECTRICALS (1) Quest Automation; ENGINEERING (1) Booth Inds.; FOODS (1) Iceland Frozen Foods; HOTELS (1) Crests; INDUSTRIALS (13) Bluebird Toys, CCA Galleries, China Light, Hutchison Whampoa, Jardine Hldgs., Lilleshall, Matheson 7¼pc, Peek Hldgs., Polymark Intl., Restmor, Swire Pacific A, Worcester; LEISURE (2) Stanley Leisure, Thames TV; MOTORS (1) Woodhead (J.); PAPER (1) WPP Group; PROPERTY (4) Egerton 7%Cnv.Pref., HK Land, Southend Stadium, Warnford Invs.; TRUSTS (2) Continental Assets Trust, Berkeley Technology; OILS (5) BP, Conroy Pet and Nat. Resources, Petrofina; MINES (14) Brunswick, East Daggafontein, Eastmet, Enterprise Gold, Forsyth, Ivanhoe Gold, Minsil Sec., Normandy Resources, Pancontinental, Paragon, Paringa Mining and Expln., Swan Resources, White Creek, Windsor Resources.

NEW LOWS (29)

BANKS (1) Hill Samuel; ELECTRICALS (4) British Telecom, NEI, Racal Elects., Do. 7pc Cnv. '09-14; ENGINEERING (2) Renold, SPP; FOODS (1) Bio-Isolates; INDUSTRIALS (6) ASD, Airsprung, Avaari, British Bloodstock, European Ferries, Young (H.); PAPER (3) Addison Consultancy, Barker (Charles), Peters (Michael); PROPERTY (2) Laing Properties, Do. 8¼pc Ln. '00-05; SHIPPING (2) British and Commonwealth, Milford Docks; OILS (1) E.R.I.C.; OVERSEAS TRADERS (1) GN Great Nordic.

FT-ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS — Thursday October 2 1986 — Wed Oct 1 — Tues Sept 30 — Mon Sept 29 — Year ago (approx.)

Figures in parentheses show number of stocks per section

[illegible]

FIXED INTEREST

[illegible]

LONDON TRADED OPTIONS

Option		Calls Oct.	Calls Jan.	Calls Apr.	Puts Oct.	Puts Jan.	Puts Apr.
Allied Lyons (*306)	300	14	27	38	5	12	17
	330	3½	13	20	30	33	35
	360	1½	4	8	55	58	63
B.P. (*691)	550	140	157	168	1	3	7
	600	90	110	127	1½	6	17
	650	44	70	90	5	17	30

Option		Calls Nov.	Calls Feb.	Calls May	Puts Nov.	Puts Feb.	Puts May
Midland Bk (*534)	500	55	72	82	7	11	15
	550	23	42	52	25	30	35
	600	8	17	27	67	67	67
P. & O. (*501)	460	50	68	—	2	7	—
	500	20	40	52	15	22	27
	550	5	17	28	52	55	58

[illegible]

EUROPEAN OPTIONS EXCHANGE

Series		Nov. Vol.	Nov. Last	Feb. Vol.	Feb. Last	May. Vol.	May. Last	Stock
GOLD C	$360	215	768	7	83	—	—	$433.70
GOLD C	$400	57	39	—	—	200	558	"
GOLD C	$420	86	23.50B	8	38	89	478	"
GOLD C	$440	143	16	16	28.50	—	—	"
GOLD C	$460	86	8	32	18B	5	27.50	"
GOLD C	$480	16	3.80B	5	12	4	20.50	"
GOLD P	$360	48	0.50	—	—	—	—	"
GOLD P	$380	100	2.50	20	6.50	—	—	"

[illegible]

TOTAL VOLUME IN CONTRACTS: 32,629

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

[illegible]

WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FRANCE

[illegible]

GERMANY

[illegible]

ITALY

[illegible]

NETHERLAND

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

AUSTRALIA

[illegible]

AUSTRALIA (continued)

[illegible]

HONG KONG

[illegible]

JAPAN

[illegible]

JAPAN (continued)

[illegible]

SINGAPORE

[illegible]

SOUTH AFRICA

[illegible]

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Kroner.

CANADA

TORONTO

Closing prices October 2

[illegible]

MONTREAL

Closing prices October 2

[illegible]

Sales 4,209,938 shares

Indices

NEW YORK-DOW JONES

[illegible]

STANDARD AND POORS

[illegible]

N.Y.S.E. ALL COMMON

[illegible]

RISES AND FALLS

[illegible]

NEW YORK ACTIVE STOCKS

[illegible]

TORONTO	Oct 2	Oct 1	Sept 30	Sept 29	1986 High	1986 Low
Metals & Minls	2,157.[illegible]	2,[illegible]	1,2[illegible].43	2,132.3[illegible]	2,442.[illegible] (21/3)	1,817.4 (5/[illegible])
Composite	3,[illegible]	2,[illegible]	2,143.5[illegible]	2,[illegible]	3,129.11 (18/4)	2,764.8 (17/2)
MONTREAL Portfolio	1,514.12	1,[illegible].43	1,[illegible].47	1,4[illegible]	1,[illegible]3.33 (18/4)	1,3[illegible] (22/1)

* Indicates pre-close figure

[illegible]

** Saturday September 27: Japan Nikkei 18,181.2. TSE 1529.81.

Base values of all indices are 100 except Brussels SE—1,000. JSE Gold—255.7. JSE Industrial—264.3, and Australia. All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors—10: and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities. 40 Financials and 20 Transports. c Closed. u Unavailable.

OVER-THE-COUNTER *Nasdaq national market, closing prices*

Continued from Page 47

[illegible]

LONDON

Chief price changes (in pence unless otherwise indicated)

RISES		
Bridport-Gun	213	+15
BP	688	+12
Empire Stores	190	+ 4
Lawtex	68	+10
Lilleshall	131	+10
LCA	108	+13
Lucas Inds	511	+13
Matthews (B)	245	+15
Siebe	760	+25
Sons of Gw	348	+25

FALLS		
Ex 10¼% Cnv '89	£100¼	− 1
Tr 13¼% '04-08	£121⅝	− 1⅝
Tr 2½ IL '01	£99⅜	− ⅝
Ealing Electro	113	−16
Etam	242	− 8
HTV N/V	220	− 8
Lloyds Bank	407	− 7
McCorquodale	278	− 8
Milford Docks	38	− 7
Mitchell Cotts	49½	− 3½
Racal Elects	152	− 6
Storehouse	300	−13
Young (H)	110	−18

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
25½	19¾	AAR s	.44	1.9	17	254	23⅛	22¾	23	+½
30	21¾	ADT	.92	3.7		45	25⅛	24¾	24¾	−⅛
33	11½	AFG s	.08l	.3	15	140	26⅞	26⅝	26⅝	−⅜
25⅜	13¾	AGS			13	161	18¾	18¼	18½	+¼
15	9⅞	AMCA			250	1	10	10	10	
60⅜	37½	AMR			15	6054	58⅞	58	58¼	−⅝
27½	23¼	ANR pf2.67		9.8		3	27¼	26¾	27¼	
24	19¼	ANR pf2.12		9.3		4	22¾	22⅝	22¾	+⅛
13⅛	9⅜	APL			6	8	12⅞	12¾	12¾	−¼
16¾	10	ARX	.71t	6.7	10	33	10¾	10⅝	10⅝	+⅛
41½	28¾	ASA	2a	5.0		798	39⅞	38⅛	39⅞	+2⅜
16⅜	8¾	AVX		9.1		19	10⅜	10¼	10⅜	+¼
32	22¾	AZP	2.72	9.5	8	773	29	28¾	28¾	−⅛
55	26⅜	AbtLb s .84		1.9	20	3808	44⅜	43	44	+1
32	19¾	AccoWd.56		2.1	17	344	26⅜	25⅜	26⅜	+⅝
14⅞	9	AcmeC .40		4.0		25	10⅜	10	10	−¼
9¼	6¼	AcmeE.32b		4.9	14	21	6¾	6½	6½	−¼
22⅜	17	AdaEx 1.90e		9.4		z75	20¼	20	20⅛	
33⅜	17	AdmMl .40		1.7	10	39	23⅜	23⅛	23⅛	−¼
20⅜	13	AdvSys.83t		6.3	12	39	13¼	13⅛	13⅛	−⅛
32⅞	14⅛	AMD				4791	15⅝	14½	14¾	−1⅛

Continued on Page 47

NYSE COMPOSITE CLOSING PRICES

Continued from Page 46

AMEX COMPOSITE CLOSING PRICES

OVER-THE-COUNTER *Nasdaq national market, closing prices*

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in-full. yld-yield. z-sales in full.

Continued on Page 45

FINANCIAL TIMES
WORLD STOCK MARKETS

WALL STREET

Bond prices ease as $ weakens

FINANCIAL markets on Wall Street drifted yesterday in quiet trading unable to sustain the upturns of earlier in the week, writes *Roderick Oram from New York.*

Bond prices eased as the the dollar weakened slightly and the market lacked new economic data to digest. Stock prices tried in the first hour to extend their mid-week gains but slipped into negative territory by late morning.

The Dow Jones Industrial Average of 30 blue chip shares closed down 1.69 points at 1,781.21. Broad market indices closed up fractionally on the day, however. The New York Stock Exchange composite was up 0.20 points at 134.89 on volume of 128.05m, against 143.55m on Wednesday, with 776 issues advancing and 748 declining.

"Everyone got kind of excited over the last couple of days so today's sort of a let down," said Ms Hilde Zagorski of Prudential-Bache Securities.

The market showed its uncertainty on Tuesday and Wednesday with the advances fading late in each session leaving only a 27.7 point net two-day gain. "People don't know which way to jump," added Ms Zagorski.

Prudential-Bache technical analysts believe a 100 point rally is possible but think the Dow Jones Industrial Average might have to retest the 1,740 level first.

Two factors driving the market in mid-week, strong airline stocks and a rallying bond market, were missing yesterday. Airline's posted only small gains or losses with, for example, United easing $⅝ to $58⅝ and American falling $⅝ to $58¼. Delta was up $⅛ to $45⅝ and Western was unchanged at $12 on news that the Justice Department would not oppose their merger.

Similarly oil stocks, which have been relatively strong in the past few weeks, pulled back yesterday. Exxon eased $¼ to $67⅝, Standard Oil fell $⅜ to $47⅝ and Mobil was off $⅛ at $37⅝.

CBS fell $1 to $122⅞. The broadcasting network has assured Washington regulators that control of it has not passed to Loews, its main shareholder, Mr Laurence Tisch, Loews chairman, became acting chief executive of CBS last month. Loews shares fell $⅛ to $62⅞. In addition, Mr Peter Kalikow, a New York real estate developer, disclosed a 3.8 per cent CBS stake which he said was long term and passive.

Humana, a leading health care group, lost $½ to $23¼ on news it was taking a $130m writeoff in the fourth quarter.

Limited Inc., a women's clothing store chain, rose $3⅛ to $29 on two analysts' buy recommendations and reports in the market that it was a takeover candidate.

Schlumberger gained $1⅞ to $34⅞ after the departure of Mr Michel Vaillaud as president. Analysts believe a large restructuring of the troubled oilfield services and electronics company may follow.

Elsewhere in the electronics industry National Semiconductor rose $½ to $9¼ on news of a first quarter loss of $1.4m against an operating loss of $57.9m a year earlier.

Bond markets were quiet yesterday with no economic news to consider. The easing of the dollar contributed to the weakness yesterday as investors tried to form an opinion on the currency's direction from the many comments at this week's IMF annual meeting in Washington.

The market is also focusing on September employment figures due out today. Most economists expect a small increase in people employed but an unemployment rate unchanged to slightly higher.

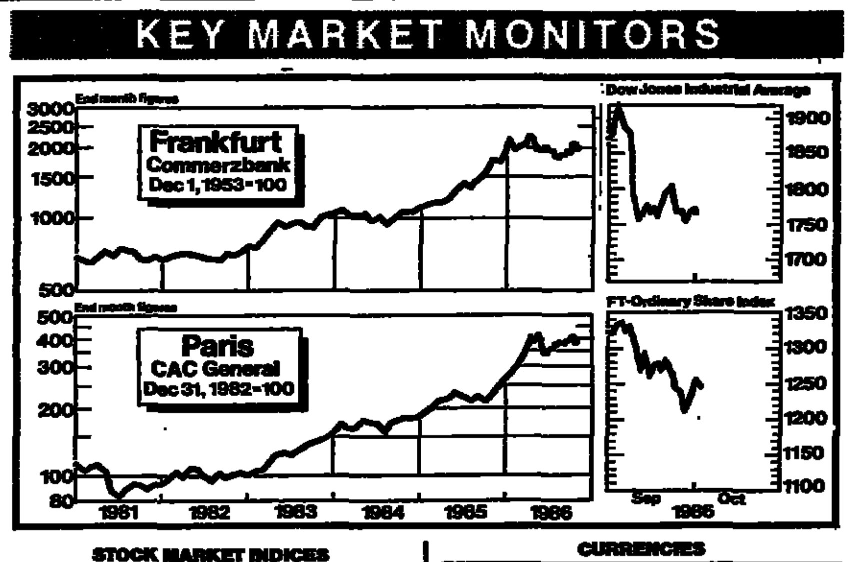
September car sales will also be released which should show strong gains because of low interest rate financing incentives. But this is not considered entirely positive for car makers because the inducements will have brought purchases forward rather than stimulate new ones.

Prices in the bond futures market for both December and February fell about ½ a point, while prices in the cash market were mixed. They rose fractionally at the short end but were slightly lower or unchanged for longer maturities.

The price of the benchmark 7.25 per cent Treasury bond due 2016 was down ¼ at 95 30/32 at which it yields 7.62 per cent. Treasury bills were unchanged with three-month bills at 5.19 per cent, six-month at 5.38 and year bills at 5.50.

M1 rose $4.3bn in the week ended September 22, far above economists' forecasts, and averaged $683.4bn in the third quarter, up 17.2 per cent from the previous quarter.

KEY MARKET MONITORS



STOCK MARKET INDICES

	Oct 2	Previous	Year ago
NEW YORK			
DJ Industrials	1,781.21	1,782.90	1,333.67
DJ Transport	*813.88*	*815.13*	*647.24*
DJ Utilities	199.33	199.93	153.78
S&P Composite	233.92	233.60	184.06
LONDON			
FT Ord	1,246.0	1,251.7	1,012.5
FT-SE 100	1,573.1	1,578.3	1,296.0
FT-A All-share	969.56	777.10	633.87
FT-A 500	853.62	855.18	700.64
FT Gold mines	*317.2*	*321.5*	*281.7*
FT-A Long gilt	10.48	10.35	10.20
TOKYO			
Nikkei	17,019.13	17,564.39	12,720.5
Tokyo SE	1,441.88	1,492.81	1,027.00
AUSTRALIA			
All Ord.	1,275.5	1,253.6	1,008.9
Metals & Mins.	655.4	636.1	517.2
AUSTRIA			
Credit Aktien	236.26	235.55	n/a
BELGIUM			
Belgian SE	4,034.33	3,799.67	2,485.26
CANADA			
Toronto			
Metals & Minls	2,157.90	2,160.60	1,901
Composite	3,002.0	2,988.30	2,646.0
Montreal			
Portfolio	1,514.12	1,508.43	128.92
DENMARK			
SE	193.5	n/a	219.77
FRANCE			
CAC Gen	386.50	382.50	210.1
Ind. Tendance	*150.00*	*148.50*	*76.6*
WEST GERMANY			
FAZ-Aktien	673.76	669.11	541.20
Commerzbank	2,016.60	1,966.20	1,592.0
HONG KONG			
Hang Seng	2,120.14	2,090.24	1,553.13
ITALY			
Banca Comm.	*739.84*	*742.56*	*403.27*
NETHERLANDS			
ANP-CBS Gen	282.40	278.50	215.4
ANP-CBS Ind	282.10	278.10	190.6
NORWAY			
Oslo SE	376.39	375.30	375.31
SINGAPORE			
Straits Times	812.34	812.83	768.74
SOUTH AFRICA		Prev	Year Ago
JSE Golds	—	1,829.0	1,059.9
JSE Industrials	—	1,375.0	970.1
SPAIN			
Madrid SE	200.68	199.41	83.45
SWEDEN			
J & P	2,474.06	2,470.42	1,375.05
SWITZERLAND			
Swiss Bank Ind	555.00	548.10	483.5
WORLD	Oct 2		
MS Capital Int'l	–	343.9	224.9

COMMODITIES

(London)	Oct 2	Prev
Silver (spot fixing)	387.30p	385.40p
Copper (cash)	£941.5	£948.00
Coffee (Nov)	£2,235	£2,195
Oil (Brent blend)	$14.10	$13.95

GOLD (per ounce)

	Oct 2	Prev
London	$433.25	$423.50
Zürich	$432.75	$423.55
Paris (fixing)	$422.37	$421.54
Luxembourg	$425.75	$425.50
New York (Dec)	$441.1	$429.20

CURRENCIES

(London)	US DOLLAR Oct 2	US DOLLAR Previous	STERLING Oct 2	STERLING Previous
$	–	–	1.4335	1.4450
DM	2.0060	2.0215	2.875	2.92
Yen	153.85	154.15	220¾	222¾
FFr	6.57¼	6.62	9.42¾	9.56½
SFr	1.6260	1.6410	2.33	2.37
Guilder	2.2675	2.2835	3.25	3.30
Lira	1.389	1.398½	1.991	2.020¾
BFr	41.60	41.95	59.65	60.60
C$	1.3875	1.3885	1.9880	2.0070

INTEREST RATES

	Oct 2	Prev
Euro-currencies (3-month offered rate)		
£	11 1/16	10 13/16
SFr	4⅛	4⅛
DM	4⅝	4⅝
FFr	8⅝	8⅛
FT London Interbank fixing (offered rate)		
3-month US$	6 1/16	6 1/16
6-month US$	6 1/16	6 1/16
US Fed Funds	5 13/16*	5 11/16
US 3-month CDs	5.65*	5.65
US 3-month T-bills	5.20*	5.19

US BONDS

Treasury

		October 2 Price	October 2 Yield	Prev Price	Prev Yield
6¼	1988	100	6.375	100	6.341
7¼	1993	99 27/32	7.271	100 6/32	6.232
7⅝	1996	96 17/32	7.442	96 24/32	7.41
7¼	2016	95 30/32	7.596	96 6/32	7.576

Source: Harris Trust Savings Bank

Treasury Index

Maturity (years)	Return Index	Oct 1 Day's change	Yield	Day's change
1–30	155.56	+0.65	7.17	–.06
1–10	148.80	+0.35	6.86	–.07
1– 3	140.00	+0.18	6.40	–.07
3– 5	151.21	+0.38	7.07	–.08
15–30	179.98	+1.78	8.22	–.10

Source: Merrill Lynch

Corporate	October 2 Price	October 2 Yield	Prev Price	Prev Yield
AT & T				
3⅞ July 1990	91.15	6.60	91.42	6.50
SCBT South Central				
10¾ Jan 1993	106¾	9.482	106¾	9.482
Phibro-Sal				
8 April 1996	98	8.308	97⅞	8.35
TRW				
8⅞ March 1996	*102*	*8.435*	*101½*	*8.50*
Arco				
9⅞ March 2016	106	9.275	106.27	9.25
General Motors				
8⅛ April 2016	89½	9.16	90.057	9.10
Citicorp				
9⅜ March 2016	97¼	9.656	97.79	9.60

Source: Salomon Brothers
Yield calculated on a semi-annual basis

FINANCIAL FUTURES

CHICAGO	Latest	High	Low	Prev
US Treasury Bonds (CBT) 8% 32nds of 100%				
Dec	96–09	96–17	95–31	95–23
US Treasury Bills (IMM) $1m points of 100%				
Dec	94.81	94.84	94.78	94.74
Certificates of Deposit (IMM) $1m points of 100%				
Dec	n/a	n/a	n/a	n/a
LONDON				
Three-month Eurodollar $1m points of 100%				
Dec	94.01	94.05	93.99	93.94
20-year Notional Gilt £50,000 32nds of 100%				
Dec	109–20	101–8	90–6	111–22

** Latest available figures*

EUROPE

Rising trend hampered by profit-taking

PROFIT-TAKING and a lack of foreign buyers hampered most of Europe yesterday although many of the major bourses ended the session showing small gains.

Frankfurt continued its advance despite a setback early in the session and little interest from abroad. The Commerzbank index, set at midsession, was 15 higher at 2,016.6.

Some car makers which have risen recently on good profits forecasts, edged back. VW lost DM 2.10 to DM 496.20 and Daimler DM 2 to DM 1,270. However, BMW added DM 2 to DM 632.

Banks, which led much of Wednesday's rise, closed mixed. Dresdner managed a DM 1.90 rise to DM 411.90 and Deutsche added *DM 2.00* to *DM 793*.

In the bond market long maturities varied between gains of 15 basis points and 40 basis points. The average yield on public authority bonds was steady at 5.81 per cent.

The Bundesbank bought DM 7.9m worth of domestic paper in its daily market balancing operation after selling DM 247.9m on Wednesday.

Brüssels, in contrast to the other bourses, was boosted by foreign buyers who helped some blue chips to close with substantial gains.

In particular, active trading saw oil group Petrofina close BFr 200 up at BFr 9,320.

Elsewhere, chemical Solvay rose BFr 130 to BFr 7,900 in continued reaction to its good results earlier this week, and holding group Sofina scored a BFr 300 rise to BFr 11,350.

Amsterdam was again worried by exchange and currency rates although most sectors closed showing moderate gains.

Among internationals Unilever was unchanged at Fl 477, Akzo added 40 cents to Fl 147.60 ex-rights and Philips rose 60 cents to Fl 55.

Elsewhere steel group Hoogovens edged up 30 cents to Fl 60.10 and airline KLM rose 40 cents to Fl 47.10.

Zurich saw early gains reduced but the market closed higher on balance. Mechanical engineer Oerlikon-Bührle bearer shares fell SFr 40 to SFr 1,540. The group is expecting lower profits this year.

Milan closed mixed with falls among electricals and industrials and gain in the financial sector.

Fiat, which is locked in a battle with Ford for control of Alfa Romeo, fell for the fourth consecutive session. It closed L300 lower at L14,700.

Montedison lost L90 to L3,360 while Olivetti was steady at L16,600.

Paris firmed steadily throughout the day, led in part by strength among construction stocks. The sector has been boosted by a general improvement in the industry. Bouygues continued to gain, adding FFr 19 to FFr 1,419.

Madrid closed higher and **Stockholm** firmed on strong interest in blue chips.

SOUTH AFRICA

AFTER an indeterminate start, gold made headway in Johannesburg in temperate trading.

The rise was sparked by a firmer bullion price and a slightly weaker financial rand, the investment instrument. Anglo American Gold rose R11 to R392 and Gold Fields firmed R2.25 to R57.50.

Other minings followed gold with Rustenburg Platinum adding R1 to R51 and De Beers advancing 50 cents to R31.50.

TOKYO

Uncertainty fuels sharp downturn

MOUNTING CONCERN about the uncertain market outlook took equities sharply lower, with the Nikkei average down to almost 17,000 in Tokyo yesterday, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei index tumbled 545.26 to 17,019.13, the second sharpest fall on record after the 637-point fall on September 16. Trading volume weakened from 1,722.72m to 809.96m shares, as investors moved to the sidelines in late trading. Declines led advances by 695 to 120, with 102 issues unchanged.

The market opened firmer, supported by an overnight rise on Wall Street for the second consecutive day, with the Nikkei average gaining 37 points at one stage before beginning to fall.

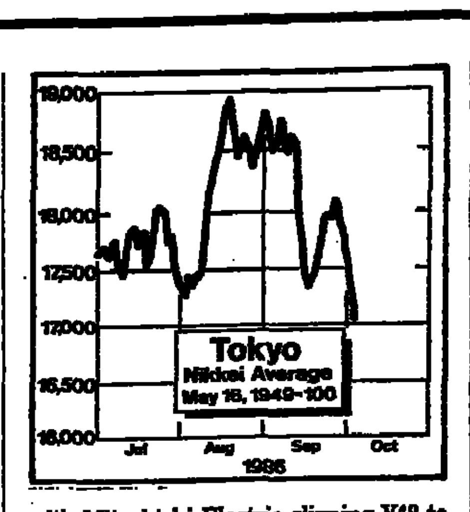
The dealing divisions of some securities houses placed buy orders to stem the slide when the index fell towards the 17,263 level from which the market had climbed to a record in August. But selling pressure sent equities sharply lower almost across the board towards the close.

Most market participants felt that the plunge was in reaction to "money game" trading in a few large-capital stocks by institutional investors looking for quick profits, which began late last month. They expect the Nikkei average to slip below 17,000, but were also optimistic that institutions with large surplus funds would buy at low levels.

The major issues related to redevelopment on Tokyo Bay, the recent target of institutions, fell steeply. Ishikawajima-Harima Heavy Industries, with 65.47m shares traded, fell Y56 to Y580. Nippon Kokan, with 56.53m shares traded, declined Y32 to Y305 and Tokyo Gas, with 35.62m shares, Y140 to Y1,030.

Kawasaki Steel headed the actives with 106.49m shares and shed Y18 to Y258, Mitsubishi Heavy Industries, with 51.19m shares, Y60 to Y590, Nippon Steel, with 33.59m shares, Y10 to Y203 and Tokyo Electric Power Y650 to Y7,400.

Stocks related to information communications, another favourite of institutions, also fell almost across the board,



with Mitsubishi Electric slipping Y48 to Y552, Toshiba Y47 to Y743 and NEC Y140 to Y2,280.

Among consumer stocks, Taisei shed Y60 to Y970, Kumagai Gumi Y130 to Y1,230 and Mitsubishi Estate Y120 to Y2,500.

Bonds strengthened on a wide front in the afternoon on revived hopes for another cut in Japan's official discount rate from the present 3.5 per cent.

The rally was sparked by news that Bank of Japan Governor Mr Satoshi Sumita had softened his stance towards persistent US demands that Japan cut the key lending rate to stimulate its economy. This sparked hopes of a discount rate cut soon after Mr Sumita's return home.

However, the yield on the benchmark 6.2 per cent government bond due in July 1995 rose from 4.720 to 4.730 per cent after hitting 4.755 per cent at one point. This reflected investor concern that its price is high relative to other issues and that the issue may be soon replaced by the 5.1 per cent government bond due in June 1996 as a bellwether issue.

AUSTRALIA

IMPROVED PERFORMANCES on Wall Street and in London overnight helped extend the rally in Sydney, where shares advanced across the board. Firmer crude oil and bullion prices added to the surge.

The All-Ordinaries index record set on Friday was improved by 16 to 1,275.0.

The week has been dominated by interest in Woolworths, the country's second biggest retailer, which has been the subject of takeover speculation. Industrial Equity announced after the close of trading that it holds 16.97 per cent of Woolworths. Industrial Equity's shares rose 8 cents to A$7.50 and Woolworths also put on 8 cents to A$3.78.

LONDON

STERLING'S WEAKNESS provided a backcloth of uncertainty to securities trading in London and share prices fluctuated in a nervous session.

The FT-SE 100 index shed 5.2 points to close at 1,573.1 and the FT Ordinary share index ended 5.7 down at 1,246.0.

British Aerospace, a member of the Airbus Industrie consortium, eased 3p to 458p after profit taking wiped out initial gains which followed news of Northwest Airlines' big order for Airbus jets.

Banks were lower, mainly on interest-rate concerns, and Lloyds closed 7p down at 407p. It is buying a 90 per cent stake in Continental Bank of Canada and does not intend at present to enter the market for Standard Chartered shares.

Government bonds recovered tentatively from early falls to show net losses of 1½ points.

Chief price changes, Page 45; Details, Page 44; Share information service, Pages 42–43.

HONG KONG

THE RALLY in Hong Kong continued into its seventh day reflecting heavy local and overseas institutional interest and news of a big property sale.

It was a day of records as the Hang Seng index rose to 2,120.14 for the first time and turnover reached HK$1.3bn, the highest since HK$2bn in April 1982.

Hongkong Land sold its residential properties to Bond of Australia for HK$1.4bn sending its shares up 10 cents to HK$7.30.

SINGAPORE

EARLY BUYING was balanced by profit-taking which left shares in Singapore narrowly mixed at the close. Some investors were apparently buying with funds withdrawn from Tokyo, which fell sharply.

Among actives, City Development lost two cents to $1.95 on 4.11m shares traded, OCBC added 10 cents – just off its 1986 high of $8.2 – on 1.4m shares, and *UIC* eased 1 cent to S$2.28 on 1.11m shares.

CANADA

AFTER a firm start, shares in Toronto eased back to show only slight gains as Wall Street weakened. Industrials led the higher trend which saw most major share groups edging upwards.

Dome Petroleum among leading actives fell 2 cents to 98 cents.

In Montreal most major share groups moved higher.